

# **The First Insurance Co., Ltd.**



## **2017 Annual Report**

**Market Observation Post System: <http://mops.twse.com.tw>  
Company website: <http://www.firstins.com.tw>**

**Published June 16, 2018**

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## **I. Spokesperson**

Name: C. S. Lin  
Title: Senior Vice President  
TEL: (02)2371-7890 (main line)  
E-mail: jones@firstins.com.tw

## **II. Acting Spokesperson**

Name: Y. L. Chou  
Title: Vice President  
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E-mail: davidchou@firstins.com.tw

## **III. Address and contact number of the headquarter, branches and offices (Please refer to page 5)**

## **IV. Name, address, and contact number of share administration agency:**

Name: Share Administration Department, Hua Nan Securities Co., Ltd.  
Address: 4F, No. 54, Section 4, Minsheng East Road, Taipei City  
TEL: (02)2718-6425 (main line)  
Website: <http://www.entrust.com.tw>

## **V. Name of CPA and the name, address, and contact number of the accounting firm for the latest financial report:**

CPA: Yung-Fu Liu, Wan-Yi Liao  
Name of accounting firm: Deloitte Taiwan  
Address: 12F, No. 156, Section 3, Minsheng East Road, Taipei City  
TEL: (02)2545-9988 (main line)  
Website: <http://www.deloitte.com.tw>

## **VI. Name of overseas exchange where securities are listed, and method of inquiry: None.**

## **VII. Company website: <http://www.firstins.com.tw>**

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## One. Letter to Shareholders

Ladies and gentlemen:

Welcome to the annual general meeting of The First Insurance Co., Ltd.

In 2017, the global economy outgrew stagnation and increased trade activities that resulted in falling unemployment, rising consumer confidence, and expanding production in world's major economies. With the world's advanced economies leading the recovery throughout the first half, investment, trade and industrial production activities strengthened around the world, which brought transaction volume into the financial market and resulted in growth performance that was higher than what the market had anticipated. In terms of the domestic economy, increased electronics and machinery exports combined with rising international raw material prices had contributed to the significant growth in product and service exports. In the meantime, private spending increased while price level remained stable. Overall, the nation's full-year economic growth rate was concluded at 2.84%, up 1.34 percentage points from the 1.50% in 2016.

Below is a summary of the Company's 2017 operational performance and 2018 business plans:

I. 2017 operational performance:

(I) Written premium revenues by insurance category: (in NT\$ 1,000)

| Class  | 2017      | 2016      |
|--------|-----------|-----------|
| Fire   | 887,156   | 856,294   |
| Marine | 379,369   | 380,523   |
| Motor  | 4,317,972 | 4,043,563 |
| Others | 1,415,288 | 1,356,346 |
| Total  | 6,999,785 | 6,636,726 |

(II) Budget execution:

The Company did not publish an auditor-certified financial forecast for 2017, hence is not required to explain budget accomplishment.

(III) Income and expense:

The Company generated NT\$5,881,343,000 of revenue in 2017 and incurred NT\$4,122,629,000 of operating costs and NT\$1,242,794,000 of operating expenses, which produced NT\$515,920,000 of operating profit. After deducting income tax expense of NT\$55,224,000, net income was concluded at NT\$460,310,000.

(IV) Profitability analysis:

|                             |          |
|-----------------------------|----------|
| Return on Asset             | 3.07%    |
| Return on Equity            | 8.31%    |
| Net Investment Income Ratio | 2.37%    |
| Return on Investment        | 2.18%    |
| Combined Ratio              | 96.23%   |
| Retained Expense Ratio      | 37.23%   |
| Retained Earned Loss Ratio  | 59.00%   |
| EPS                         | NT\$1.53 |

(V) Research and development:

The Company's product development efforts are focused on satisfying customers' needs. Given the rapid change in consumers' preference, the Company encourages employees to take initiative in innovative thinking and participate in new product and service development in ways that would expand the variety of insurance products offered to customers. The Company has also been inspiring creativity among employees to provide fresh ideas for new insurance products and new business opportunities, which will prove essential to future growth.

In 2017, the Company submitted applications for 116 insurance products of various categories including group casualty insurance, public liability insurance, motor insurance, personal liability insurance, commercial fire insurance and engineering insurance to the competent authority. These included new products as well as modifications of existing products.

II. Highlights of 2018 business plan:

(I) Operational guidelines:

1. Strict control of loss ratio and expense ratio.
2. Develop reinsurance channels and strengthen reinsurance capacity.
3. Install and improve IT & Cloud platform.
4. Strengthen educational training and raise staff's professionalism.
5. Marketable products and differentiation and offer high quality insurance plans.
6. Continue to use information strategies in order to enhance management and operational efficiency.
7. Explore new insurance services, quality customers and bancassurance partners.
8. Enhance the professional capacity of the all-in-one underwriting, reinsurance, damage prevention and claims service team.
9. Raise underwriting, claims and risk management capacity for improved service quality.
10. Adopt a business-oriented approach that matches products to the appropriate customers. Raise productivity and enhance marketing of value-adding products.

(II) Business objectives:

Projected insurance weight for 2018:

1. Fire Insurance 16.86%.
2. Marine Insurance 6.23%.
3. Motor Insurance 62.57%.
4. Other Insurance 14.34%.

(III) Key production/sales policies:

1. Create a diversified marketing network and design suitable products for customers of different distribution channels.
2. Adopt a client-oriented approach and raise customers' satisfaction and loyalty by introducing high value-adding services.
3. Form alliances with participants of different industries for further expansion of service scope and customer reach.
4. Introduce customized products as a means to increase direct sales.

In November 2017, Taiwan Ratings Corp. published an assessment on the Company's credit standing and financial strength, in which it issued a credit rating of "twAA-" along with a "Stable" outlook, given the Company's satisfactory business risk

structure and strong capital position.

Although changing international monetary policies, global capital flow, U.S. tax reform, exchange rate movements, corporate credit risks in China and cross-strait relations do present uncertainties with respect to Taiwan's 2018 outlook, the nation's economy should continue to expand as a result of ongoing growth around the world and strengthened domestic demand. According to the latest forecasts made by leading institutions local and abroad, Taiwan's economic growth rate in 2018 has been estimated at 1.9%~2.5%. The government's current efforts to promote new infrastructures, remove investment obstacles, improve the capital environment, support innovative industrial projects and stimulate semiconductor manufacturers in adopting more advanced technologies should increase private investments in the future. In response, the Company shall continue focusing on its core business activities while at the same time explore improvements with a focus on stability, pragmatism, and innovation. In terms of asset allocation, the Company will strive to raise capital efficiency and asset yields as a show of gratitude for the support of our shareholders.

Lastly,

we would like to give you our best regards for the future ahead.

**Chairman Cheng-Han Lee**

## Two. Company Overview

- I. Date of establishment: September 4, 1962
- II. Address and contact number of the headquarter, branches and offices:

| Unit description        | Address   | TEL           |
|-------------------------|---|---------------|
| Head Office             | 10F and 11F, No. 54, Section 1, Zhongxiao East Road, Zhongzheng District, Taipei City | (02)2391-3271 |
| Taipei Branch Office    | 16F, No. 37, Section 2, Sanmin Road, Banqiao District, New Taipei City                | (02)2964-9588 |
| Taochu Branch Office    | 21F-2, No. 398, Huanbei Road, Zhongli District, Taoyuan City                          | (03)426-2666  |
| Taichung Branch Office  | 9F, No. 726, Section 1, Taiwan Boulevard, West District, Taichung City                | (04)2201-3135 |
| Tainan Branch Office    | 6F, No. 515, Chenggong Road, West Central District, Tainan City                       | (06)258-5200  |
| Kaohsiung Branch Office | 4F and 5F, No. 263, Siwei 3rd Road, Lingya District, Kaohsiung City                   | (07)335-5669  |
| Keelung Liaison Office  | 4F, No. 11, Ai 9th Road, Renai District, Keelung City                                 | (02)2422-2279 |
| Neihu Liaison Office    | 4F-1, No. 160, Section 6, Min Chuan East Road, Neihu District, Taipei City            | (02)2792-7902 |
| Chunglun Liaison Office | 1F and 2F, No. 26, Section 4, Bade Road, Songshan District, Taipei City               | (02)2764-5190 |
| Sanchung Liaison Office | 1F and 2F, No. 46, Zhongzheng North Road, Sanchong District, New Taipei City          | (02)2981-3365 |
| Xinshu Liaison Office   | 15F-1, No. 229, Xintai Road, Xinzhuang District, New Taipei City                      | (02)2998-8600 |
| Banqiao Liaison Office  | 19F-3, No. 37, Section 2, Sanmin Road, Banqiao District, New Taipei City              | (02)2964-3989 |
| Luzhou Liaison Office   | 1F, No. 707, Changrong Road, Luzhou District, New Taipei City                         | (02)2282-0978 |
| Xindian Liaison Office  | 11F, No. 103, Minquan Road, Xindian District, New Taipei City                         | (02)8667-1586 |
| Taitung Liaison Office  | No. 503, Xincheng Road, Taitung City, Taitung County                                  | (08)932-2380  |
| Hualien Liaison Office  | No. 215, Zhongzheng Road, Hualien City, Hualien County                                | (03)832-3346  |
| Lanyang Liaison Office  | 6F, No. 338-6, Gongzheng Road, Luodong Township, Yilan County                         | (03)955-0511  |
| Taoyuan Liaison Office  | 5F-2, No. 9, Jingguo Road, Taoyuan District, Taoyuan City                             | (03)358-8328  |
| Bade Liaison Office     | 2F, No. 234 & 236, Section 1, Jiesshou Road, Bade District, Taoyuan City              | (03)367-2132  |
| Hsinchu Liaison Office  | 10F-5, No. 9, Section 3, Zhonghua Road, North District, Hsinchu City                  | (03)523-9789  |
| Toufen Liaison          | 2F, No. 485, Zhongyang Road, Toufen Town,   | (037)681-012  |

|                                |  |               |
|--------------------------------|--|---------------|
| Office                         | Miaoli County  |               |
| Miaoli Liaison Office          | No. 428-1, Zhigong Road, Miaoli City, Miaoli County                      | (037)327-665  |
| Fengyuan Liaison Office        | No. 52, Fengdong Road, Fengyuan District, Taichung City                  | (04)2522-3928 |
| Taichung Harbor Liaison Office | No. 181, Section 8, Taiwan Boulevard, Wuqi District, Taichung City       | (04)2662-5539 |
| Changhua Liaison Office        | 8F, No. 2, Section 2, Zhongshan Road, Changhua City, Changhua County     | (04)711-7990  |
| Yuanlin Liaison Office         | No. 170, Nanping Street, Yuanlin Township, Changhua County               | (04)835-1161  |
| Tsaotwen Liaison Office        | No. 7, Minquan West Road, Caotun Township, Nantou County                 | (049)231-5890 |
| Yunlin Liaison Office          | No. 78, Nanchang West Road, Dounan Township, Yunlin County               | (05)597-6696  |
| Chiayi Liaison Office          | 11F-1, No. 316, Chuiyang Road, East District, Chiayi City                | (05)222-2933  |
| Hsinying Liaison Office        | No. 27-3, Datung Road, Xinying District, Tainan City                     | (06)632-7348  |
| Chiali Liaison Office          | No. 217, Jiadong Road, Jiali District, Tainan City                       | (06)721-1478  |
| Yongkang Liaison Office        | 9F, No. 1-42, Zhonghua Road, Yongkang District, Tainan City              | (06)311-0321  |
| Fengshan Liaison Office        | 6F, No. 360, Section 1, Qingnian Road, Fengshan District, Kaohsiung City | (07)710-7001  |
| Luchu Liaison Office           | 6F, No. 1187, Zhongshan Road, Luzhu District, Kaohsiung City             | (07)607-2237  |
| Nantze Liaison Office          | 14F-2, No. 800, Junxiao Road, Nanzi District, Kaohsiung City             | (07)365-8867  |
| Pingtung Liaison Office        | No. 229-35, Zhongxiao Road, Pingtung City, Pingtung County               | (08)766-6827  |
| Penghu Liaison Office          | 2F, No. 68, Xinsheng Road, Magong City, Penghu County                    | (06)927-6225  |



### III. Company history

#### (I) Date of establishment

The Company was founded on September 4, 1962 with a goal to contribute to the “stability of the domestic economy, welfare of the society, and prosperity of the industrial and commercial sectors.” Headquartered at No. 91, Section 1, Zhongxiao West Road, Taipei City, the Company began with a simplified organization with only two departments: Finance and Business. Owing to the management's conservative business approach and employees' contribution, the Company has been able to expand business with much success, and self-funded the construction of “First Insurance Tower” at No. 54, Section 1, Zhongxiao East Road, Taipei City, later on 1973.

#### (II) Milestones and developments:

January 1, 1975 marked the completion of the main office tower. Meanwhile, growing business activities led the Company to expand its internal organization and adopt a structure comprising five departments, namely: Finance Department, Administration Department, Fire Insurance Department, Casualty Insurance Department, and Marine Insurance. To further support business growth, the Company began establishment of a comprehensive service network by creating branch offices in Taichung and Kaohsiung, followed by liaison offices in main counties and cities throughout Taiwan.

Since the re-organization in June 1984, the Company has been introducing new solutions to improve work efficiency, service quality and financial position, and making reviews and improvements to existing management practices. Over time, the Company has developed a robust structure comprising multiple departments such as: Fire Insurance Department, Marine Insurance Department, Motor Insurance Department, Casualty Insurance Department, Business Department, Marketing Department, Finance Department, Accounting Department, Auditing Department, Information Department and Planning Department.

1993

The Company's shares were approved for public offering by Securities and Futures Commission, Ministry of Finance.

1995

Under the approval granted by the Ministry of Finance in Letter No.

Tai-Cai-Bao-841504666 dated May 6, 1995, the Company created three new liaison offices: Chiali, Toufen and Dounan on May 15, 1995.

1996

1. Under the approval granted by the Ministry of Finance in Letter No.

Tai-Cai-Bao-851846380 dated July 23, 1996, the Company created its new Fengshan Liaison Office at 6F, No. 360, Section 1, Qingnian Road, Fengshan District, Kaohsiung City on August 1, 1996.

2. Under the approval granted by the Ministry of Finance in Letter No.

Tai-Cai-Bao-851846344 dated November 26, 1996, the Company created its new Dali Liaison Office at No. 28, Daming Road, Dali City, Taichung County.

1997

1. Under the approval granted by the Ministry of Finance in Letter No.

Tai-Cai-Bao-861768724 dated March 18, 1997, the Company created its new Gangshan Liaison Office at 3F, No. 138, Zhongshan North Road, Gangshan Township, Kaohsiung County.

2. Under the approval granted by the Ministry of Finance in Letter No. Tai-Cai-Bao-861782565 dated May 8, 1997, the Company created its new Taoyuan Liaison Office at 3F-5-2, No. 9, Jingguo Road, Taoyuan City.
- 2000
1. Under the approval granted by the Ministry of Finance in Letter No. Tai-Cai-Bao-0890707409 dated August 2, 2000, the Company created its Daya Liaison Office at 1F and 2F, No. 127, Section 2, Yahuan Road, Daya Township, Taichung County.
  2. Under the approval granted by the Ministry of Finance in Letter No. Tai-Cai-Bao-0890709387 dated September 27, 2000, the Company created its new Tainan Branch Office at 5F, No. 515, Chenggong Road, West Central District, Tainan City
  3. Under the approval granted by the Ministry of Finance in Letter No. Tai-Cai-Bao-0890712554 dated December 26, 2000, the Company renamed its Gangshan Liaison Office to Luchu Liaison Office.
  4. Under the approval granted by the Securities and Futures Bureau, Ministry of Finance, in Letter No. (89)Tai-Cai-Cheng-(I)-72667 dated August 24, 2000, the Company's shares were listed for trading on TWSE on November 28 (Monday), 2000.
- 2001
1. The Company created its Nantze Liaison Office at 14F, No. 800, Junxiao Road, Kaohsiung City on July 1, 2001, and registered with The Non-Life Insurance Association.
  2. Under the approval granted by the Ministry of Finance in Letter No. Tai-Cai-Bao-0900709457 dated October 16, 2001, the Company created its Taipei Branch Office at 16F, No. 37, Section 2, Sanmin Road, Banqiao City, Taipei County, and Taochu Branch Office at 21F-2, No. 398, Huanbei Road, Zhongli District, Taoyuan City.
- 2002
1. The Company created its Rende Liaison Office at No. 1147, Section 2, Zhongzheng Road, Rende Township, Tainan City on January 1, 2002, and registered with The Non-Life Insurance Association.
  2. The Company created its Banqiao Liaison Office at 3F, No. 105, Section 1, Sichuan Road, Banqiao City, Taipei County on December 1, 2002, and registered with The Non-Life Insurance Association.
  3. The Company created its Shuanghe Liaison Office at 1F, No. 8, Dehe Road, Yonghe City, Taipei County on December 1, 2002, and registered with The Non-Life Insurance Association.
- 2003
1. On September 1, 2003, the Company renamed its Dounan Liaison Office to Yunlin Liaison Office, and registered with The Non-Life Insurance Association.
- 2004
1. The Company created its Toufen Liaison Office on January 1, 2004, and registered with The Non-Life Insurance Association.
  2. On June 8, 2004, the Company's "The First Golfer All Risks Insurance" won Best Product during RMIM's "Insurance Faith, Hope, and Love Award."

3. Customer Service Department was created on August 26, 2004.
4. Actuarial Department was created on August 26, 2004.
5. Direct Marketing Department was created on August 26, 2004.
6. Financial Insurance Marketing Department was created on August 26, 2004.
7. The Company created its Donggang Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
8. The Company created its Madou Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
9. The Company created its Chongde Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
10. The Company created its Baojian Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
11. The Company created its Puzi Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
12. The Company created its Douliu Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
13. The Company created its Beidou Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
14. The Company created its Bade Liaison Office on November 1, 2004, and registered with The Non-Life Insurance Association.
15. On November 30, 2004, Taiwan Ratings Corp. awarded the Company a rating “twA+” for financial strength and issuer credit while S&P awarded a rating of “BBB”; both institutions concluded a “Stable” outlook.
16. The Company created its Xinzhuang Liaison Office on December 24, 2004, and registered with The Non-Life Insurance Association.

#### 2005

1. The Company created its Xiaogang Liaison Office on April 22, 2005, and registered with The Non-Life Insurance Association.
2. The Company created its Zhubei Liaison Office on May 1, 2005, and registered with The Non-Life Insurance Association.
3. The Company created its Xinyi Liaison Office on December 1, 2005, and registered with The Non-Life Insurance Association.

#### 2006

1. The Company created its Xinpu Liaison Office on January 1, 2006, and registered with The Non-Life Insurance Association.
2. On December 6, 2006, Taiwan Ratings Corp. awarded the Company a rating “twA+” for financial strength and issuer credit, along with a “Stable” outlook.

#### 2007

1. The Company created its Penghu Liaison Office on September 1, 2007, and registered with The Non-Life Insurance Association.
2. On November 20, 2007, Taiwan Ratings Corp. awarded the Company a rating “twA+” for financial strength and issuer credit, along with a “positive” outlook.
3. The Company closed down Xiaogang Liaison Office on December 20, 2007, and registered with The Non-Life Insurance Association.

## 2008

1. The Company closed down Madou Liaison Office on March 1, 2008, and registered with The Non-Life Insurance Association.
2. The Company closed down Xinzhuang Liaison Office on April 1, 2008, and registered with The Non-Life Insurance Association.
3. The Company closed down Daya Liaison Office on August 20, 2008, and registered with The Non-Life Insurance Association.
4. On September 18, 2008, Taiwan Ratings Corp. (Taiwan Ratings) awarded The First Insurance Co., Ltd. (First Insurance) a rating of “twA+” for issuer credit and financial strength, and adjusted outlook from “Positive” to “Stable.” Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” and adjusted outlook from “Positive” to “Stable.”
5. The Company closed down Shuanghe Liaison Office on October 1, 2008, and registered with The Non-Life Insurance Association.
6. The Company closed down Chongde Liaison Office on October 31, 2008, and registered with The Non-Life Insurance Association.
7. The Company closed down Dali Liaison Office on November 1, 2008, and registered with The Non-Life Insurance Association.
8. On November 18, 2008, Taiwan Ratings awarded First Insurance a rating of “twA+” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” along with a “Stable” outlook.
9. The Company closed down Douliu Liaison Office on December 1, 2008, and registered with The Non-Life Insurance Association.

## 2009

1. The Company closed down Beidou Liaison Office on January 31, 2009, and registered with The Non-Life Insurance Association.
2. The Company closed down Xindian Liaison Office on February 11, 2009, and registered with The Non-Life Insurance Association.
3. Taipei County Branch Office was renamed Taipei Branch Office with a change of the person-in-charge. The change had been approved by the Financial Supervisory Commission, Executive Yuan, under Letter No. Jin-Guan-Bao-3-09802053130 dated April 3, 2009.
4. The Company closed down Puzi Liaison Office on June 1, 2009, and registered with The Non-Life Insurance Association.
5. The Company closed down Donggang Liaison Office on June 30, 2009, and registered with The Non-Life Insurance Association.
6. The Company closed down Zhubei Liaison Office on July 17, 2009, and registered with The Non-Life Insurance Association.
7. On December 3, 2009, Taiwan Ratings awarded First Insurance a rating of “twA+” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” along with a “Stable” outlook.

## 2010

1. Risk Management Department was created on August 25, 2010.
2. On November 19, 2010, Taiwan Ratings awarded First Insurance a rating of

“twA+” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” along with a “Stable” outlook.

2011

1. The Company created its Luzhou Liaison Office on July 1, 2011, and registered with The Non-Life Insurance Association.
2. The Company created its Xindian Liaison Office on July 1, 2011, and registered with The Non-Life Insurance Association.
3. On November 10, 2011, Taiwan Ratings awarded First Insurance a rating of “twA+” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” along with a “Stable” outlook.

2012

1. On November 20, 2012, Taiwan Ratings awarded First Insurance a rating of “twA+” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB,” along with a “Stable” outlook.

2013

1. Shulin Liaison Office was renamed Xinshu Liaison Office on January 1, 2013.
2. On July 3, 2013, Taiwan Ratings adjusted First Insurance's issuer credit and financial strength rating from “twA+” to “twAA-” and gave a “Stable” outlook. Meanwhile, S&P adjusted First Insurance's issuer credit and financial strength rating from “BBB” to “BBB+” and gave a “Stable” outlook.
3. The Company closed down Xinpu Liaison Office on September 1, 2013, and registered with The Non-Life Insurance Association.
4. On November 14, 2013, Taiwan Ratings awarded First Insurance a rating of “twAA-” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB+,” along with a “Stable” outlook.
5. The Company closed down Xinyi Liaison Office on December 31, 2013, and registered with The Non-Life Insurance Association.

2014

1. Rende Liaison Office was renamed Yongkang Liaison Office on May 19, 2014
2. Under the approval granted by the Financial Supervisory Commission in Letter No. Jin-Guan-Bao-Chan-10302109800 dated September 11, 2014, the Company reappointed David Huang as the new President, amended business registration, and made a placement issue of business license.
3. On November 27, 2014, Taiwan Ratings awarded First Insurance a rating of “twAA-” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB+,” along with a “Stable” outlook.

2015

1. Compliance Department was created on January 01, 2015.
2. Direct Marketing Department was removed on February 15, 2015.
3. E-Commerce Marketing Department was created on February 16, 2015.
4. On November 25, 2015, Taiwan Ratings awarded First Insurance a rating of

“twAA-” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB+,” along with a “Stable” outlook.

2016

1. Corporate Governance Center was created on March 28, 2016.
2. On November 28, 2016, Taiwan Ratings awarded First Insurance a rating of “twAA-” for issuer credit and financial strength, along with a “Stable” outlook. Meanwhile, S&P gave First Insurance an issuer credit and financial strength rating of “BBB+,” along with a “Stable” outlook.

2017

1. On November 17, 2017, Taiwan Ratings awarded First Insurance a rating of “twAA-” for issuer credit and financial strength, along with a “Stable” outlook. On November 27, 2017, S&P gave First Insurance an issuer credit and financial strength rating of “BBB+,” along with a “Stable” outlook.

2018

1. Removed Personal Lines Insurance Group, Commercial Lines Insurance Group and Special Lines Insurance Group, and reorganized all subordinate departments under the Business Group.
2. Removed Management Support Resource Group and Enterprise Development Resource Group, and reorganized all subordinate departments under the Resource Management Group.
3. Renamed Personal Insurance Department to Injury and Health Insurance Department.

(III) Mergers, acquisitions, investments in affiliated companies, and restructuring that took place in the last financial year, up till the publication date of this annual report: None.

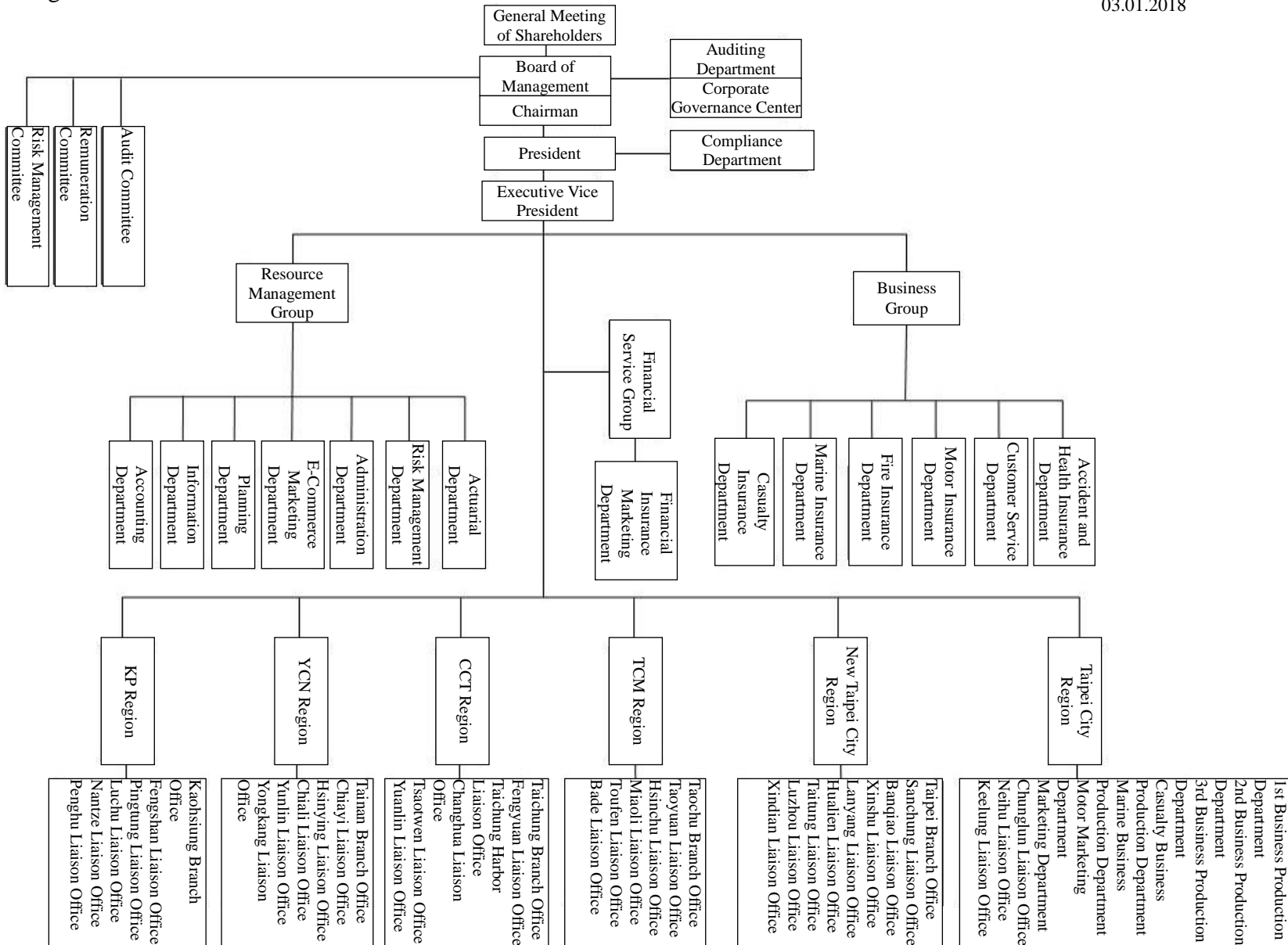
(IV) Impacts following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest, or change of management team, management practice or business activities, or any event capable of affecting shareholders' interests: None.

# Three. Corporate Governance Report

## I. Organization System:

### (I) Organizational Structure

03.01.2018



(II) The job function of the departments are specified below:

1. Auditing Dept.: administer the examination and audits of all operations of the corporate HQ and the branches, evaluate the performance of the self-assessment of the departments and assigned duties.
2. Administration Dept.: the purchase, registration, and management of supplies, disposition of residual supplies by auction, the trading, leasing, management and registration of company tools, equipment, and the receiving, collection of premiums, management, review and keeping of statistical reports. Cashier service, registration and keeping of funds and securities, and indentures.
3. Accounting Dept.: administer the budgeting and account settlement of the Company, design of the accounting system, accounting and statistical compilation, request for commission payment, joint effort in the acceptance of printed matters, stationary, machines and equipment, and other duties as required by law.
4. Planning Dept.: administer the personnel management of the company, which includes human resources, personnel administration, training and management, the design of long and short-term business plans, the surveys and design of different systems and organizations, and related revision and amendment.  
Perform secretarial duties Circulation and checking of messages and documents, the management of using corporate seal and filing.
5. Information Dept.: administer the design, installation, and keeping of the whole information system, design and implement data processing in all departments, the analysis, backup, development and maintenance of all operating systems and data use, the research and development, improvement, and recommendation of the use of related information technologies.
6. Motor Insurance Dept.: administer the research and development and business design of motor insurance products, business development, policy underwriting, the review, establishment and keeping of the reinsurance contracts and counter-protection business, the generation, study and improvement of related statements and reports.
7. Fire Insurance Dept.: administer the design of products for fire insurance and allied perils, business development, underwriting of policy, domestic and overseas reinsurance contracts, agreements, clause, statement and the adjustment, indemnity of reinsurance and benefit claims of fire insurance, fire allied perils insurance and contractors' insurance, liability insurance claims and related establishment, study, and improvement.
8. Casualty Insurance: administer the research and development and design of contractors' insurance and liability insurance, business development, policy underwriting, domestic and overseas reinsurance contracts, agreements, clause, statements and the establishment study, and improvement of related business.
9. Marine Insurance Dept.: administer the research and development and design of marine cargo insurance, marine hull insurance, transport insurance and related products, business design, business service development, policy underwriting, domestic and overseas reinsurance contracts, agreements, clause, statement, and the adjustment of claims, indemnity of reinsurance, claims processing and the establishment, study, and improvement of related business.
10. The Business Production Depts: development of all insurance business and



performing of assigned duties. Recruitment and management of marketing personnel, managers, agents, and sale personnel and related training. Market intelligence and adjustment of policy and analysis and review of business performance, and study on improvement.

11. Marketing Dept.: administer the design and assignment of business targets. Study, implementation, development and maintenance of joint marketing plans with automobile insurance agent, life insurance and banks. Development and establishment of newly emerged channels such as strategic alliance, Internet, telephone, mail and joint marketing. Recruitment, training, and employment of marketing personnel. Performance of duties assigned by superior officers. Response and recommendation of marketing related activities.
12. Injury and Health Insurance Dept.: administer the research and development of the design of personal insurance products, development of personal insurance service and policy underwriting, preparation of statements and the review, establishment, and keeping of reinsurance and counter-protection contracts, adjustment of claims, indemnity of reinsurance, claims processing and the study, improvement and recommendation of related reinsurance.
13. Customer Service Dept.: administer the adjustment of claims, indemnity of reinsurance, and claims processing of automobile insurance, preparation of statements and rejection of claims with controversy, financing and proceedings in summary court, handling stolen cars, and the establishment, study, and improvement of related business.
14. Actuarial Dept.: administer the setting and review of insurance premium rate and liability reserve, decision-making in investment, assessment of the ability to repay debt, research and development of products and participation in the sale procedure, the research and development, improvement and recommendation of actuarial techniques.
15. Risk Management Dept.: administer risk management policies, structure, organizational functions, risk tolerance, and review the development, installation, and performance of the overall risk management mechanism, assistance and monitoring of the risk management taken by the departments, report on risk management at regular intervals and presentation of reports to the Board with timely feedback on the status of risk management in action, and give recommendation necessary for improvement.
16. Compliance Dept.: design, management and implementation of compliance system, legal proceedings, reconciliation, compulsory action, contracts and postal witness statements, study, review and counter-signature of insurance products before selling, gathering of information and study on insurance related laws and related amendment, supervision on anti-money laundering and personal information protection and compliance with applicable laws, legal affairs and improvement.
17. Corporate Governance Center: coordinate and administer the Corporate Social Responsibility Committee, Outsourcing Committee, Equal Treatment of Customers Committee, Ethical Corporate Management Committee and other matters of corporate governance.

II. Profiles of the Directors, President, Executive Vice Presidents, Vice Presidents, and the heads of the departments and branches:

(I) Directors

1. Profiles of Directors

April 30, 2018

| Occupational Title (Note 1) | Nationality of place of registration | Name                            | Sex  | Date of (elected to) office: | Tenure  | Initial date of elected to office (Note 2) | Quantity of shareholding at the time of elected to office |                            | Quantity of shareholding at present |                            | Shareholding of spouse and dependents |                            | Shareholding under the title of a third party |                            | Major experience (education) (Note 3)          | Holding other positions of the Company and other companies at present  | Other executive, Director or Supervisor who is a spouse or kindred within the 2nd tier under the Civil Code. |                                 |          |
|-----------------------------|--------------------------------------|---------------------------------|------|------------------------------|---------|--|---|----------------------------|-------------------------------------|----------------------------|---------------------------------------|----------------------------|---|----------------------------|--|--|--|---------------------------------|----------|
|                             |                                      |                                 |      |                              |         |  | Quantity of shares  | Proportion of shareholding | Quantity of shares                  | Proportion of shareholding | Quantity of shares                    | Proportion of shareholding | Quantity of shares                            | Proportion of shareholding |  |  | Occupational title   | Name                            | Relation |
| Chairman                    | Republic of China                    | Yi Chi Co., Ltd.                | -    | June 24, 2016                | 3 years | 730628                                     | 4,928,750   | 1.64%                      | 4,928,750                           | 1.64%                      | 0                                     | 0%                         | 0   | 0%                         | None   | None   | None   | None                            | None     |
|                             | Republic of China                    | Representative: Cheng-Han Lee   | Male | June 24, 2016                | 3 years | 790309                                     | 0   | 0%                         | 1,699,367                           | 0.56%                      | 3,719,751                             | 1.24%                      | 0   | 0%                         | Master, USIU, USA                              | Executive Director: Da Feng Construction Engineering Co., Ltd; Taiwan Fuji Molding Co., Ltd. , Chien Chi Co., Ltd. ; Representative of Institutional Executive Director: Tsai Cheng Enterprise Co., Ltd., Chien Cheng Development Co., Ltd.; Director: Ho Tu Enterprise Co., Ltd., Chung Cheng Enterprise Co., Ltd., Chin Rai Chang Construction Co., Ltd., Yi Chi Co., Ltd. Lee Chien Cheng Memorial Education Foundation; Representative of Institutional Director: Hai Hwa Construction Co., Ltd., Hwa Wang Construction Co., Ltd., Taiwan Construction Management Co., Ltd.; Supervisor: Forbes Construction Co., Ltd.   | Director Director  | Cheng-Tsung Lee<br>Cheng-Tu Lee | Brothers |
| Director                    | Republic of China                    | Chien Yi Industrial Co., Ltd.   | -    | June 24, 2016                | 3 years | 730628                                     | 9,148,189   | 3.04%                      | 7,335,189                           | 2.44%                      | 0                                     | 0%                         | 0   | 0%                         | None   | None   | None   | None                            | None     |
|                             | Republic of China                    | Representative: Cheng-Tsung Lee | Male | June 24, 2016                | 3 years | 730628                                     | 0   | 0%                         | 1,329,102                           | 0.44%                      | 183,647                               | 0.06%                      | 0   | 0%                         | Dept. of Civil Engineering, Tamkang University | Chairman: Chien Cheng Development Co., Ltd., Taiwan Fjui Molding Co., Ltd., Chien Yi Industrial Co., Ltd., Forbes Construction Co., Ltd., Chin Rai Chang Construction Co., Ltd., Yi Fang Co., Ltd., Lee Chien Cheng Memorial Education Foundation, Hwa Wang Construction Co., Ltd., Hai Hwa Construction Co., Ltd., Taiwan Apartment Management and Maintenance Co., Ltd., Taiwan Architecture Management Co., Ltd., Representative of Institutional Director: Chung Cheng Enterprise Co., Ltd., Chi Yi Construction Management Co., Ltd.; Director: Tu Ho Enterprise Co., Ltd., Rai San Co., Ltd., Executive Director: Tsai Cheng Enterprise Co., Ltd., Bao Shan Construction Co., Ltd. | Chairman Director  | Cheng-Han Lee<br>Cheng-Tu Lee   | Brothers |

|          |                   |  |      |               |         |         |            |       |            |       |         |       |   |    |   |  |                   |                                  |          |
|----------|-------------------|--|------|---------------|---------|---------|------------|-------|------------|-------|---------|-------|---|----|---|--|-------------------|----------------------------------|----------|
| Director | Republic of China | Cheng-Tu Lee                               | Male | June 24, 2016 | 3 years | 790623  | 3,296,991  | 1.09% | 3,296,991  | 1.09% | 606,203 | 0.20% | 0 | 0% | Dept. of Accounting and Statistics, Shih Chien University                           | Chairman: Tu Ho Enterprise Co., Ltd., Da Feng Construction Engineering Co., Ltd., Wang Cheng Enterprise Co., Ltd., Chung Cheng Enterprise Co., Ltd.; Representative of Institutional Director: Hwa Wang Construction Co., Ltd., Hai Hwa Construction Co., Ltd., Taiwan Architecture Management Co., Ltd.; Executive Director: Chien Cheng Development Co., Ltd., Taiwan Fuji Molding Co., Ltd., Yung Chi Enterprise Co., Ltd., Chin Shi Engineering Co., Ltd.; Director: Forbes Construction Co., Ltd., Lee Chien Cheng Memorial Education Foundation; Supervisor: Chin Rai Chang Construction Co., Ltd.; Representative of Institutional Supervisor: Chia Tai Construction Co., Ltd., Taiwan Apartment Management and Maintenance Co., Ltd. | Director Chairman | Cheng-Tsung Lee<br>Cheng-Han Lee | Brothers |
| Director | Republic of China | Yi-Lung Lai                                | Male | June 24, 2016 | 3 years | 930527  | 459,352    | 0.15% | 459,352    | 0.15% | 0       | 0%    | 0 | 0% | EMBA National Cheng Chi University  | None   | None              | None                             | None     |
| Director | Republic of China | Shao-Ying Lee                              | Male | June 24, 2016 | 3 years | 990625  | 195,104    | 0.06% | 195,104    | 0.06% | 208     | 0%    | 0 | 0% | Special Program of Metrology, Tamkang University.                                   | Director: Tsai Cheng Enterprise Co., Ltd., Chien Cheng Development Co., Ltd., Bao Shan Construction Co., Ltd., Yung Chi Enterprise Co., Ltd., Chin Shi Engineering Co., Ltd.; Supervisor: Da Feng Construction Engineering Co., Ltd., Rai San Co., Ltd..   | None              | None                             | None     |
| Director | Republic of China | Chimax Development Co., Ltd.               | -    | June 24, 2016 | 3 years | 820527  | 1,357,389  | 0.45% | 1,357,389  | 0.45% | 0       | 0%    | 0 | 0% | None  | None   | None              | None                             | None     |
|          | Republic of China | Representative: Chi-Chen Tu                | Male | June 24, 2016 | 2 years | 1030505 | 0          | 0%    | 241,968    | 0.80% | 83,830  | 0.03% | 0 | 0% | Dept. of Land Administration, University of Chinese Culture                         | Chairman: Chimax Development Co., Ltd.; Director: Yuan Hu Construction Co., Ltd.; Supervisor: Bao Shan Construction Co., Ltd.  | None              | None                             | None     |
| Director | Republic of China | David Huang                                | Male | June 24, 2016 | 3 years | 1050624 | 828,518    | 0.28% | 828,518    | 0.28% | 5,114   | 0%    | 0 | 0% | Dept. of Business Administration, Soochow University                                | None   | None              | None                             | None     |
| Director | Republic of China | Cheng-Chin Lee                             | Male | June 24, 2016 | 3 years | 900525  | 347,000    | 0.12% | 347,000    | 0.12% | 190,000 | 0.06% | 0 | 0% | Corporate Management, Dept. of Business Administration, Takushoku University, Japan | Chairman: Bao Shan Construction Co., Ltd., Teng Min Co., Ltd.; Director: Si Yuan Co., Ltd.; Executive Director: Rai San Co., Ltd., Chien Cheng Development Co., Ltd.   | None              | None                             | None     |
| Director | Republic of China | Da Feng Construction Engineering Co., Ltd. | -    | June 24, 2016 | 3 years | 990625  | 15,823,085 | 5.25% | 15,823,085 | 5.25% | 0       | 0%    | 0 | 0% | None  | None   | None              | None                             | None     |

|                      |                   |                                   |      |               |         |         |            |       |            |       |   |    |   |    |  |   |      |      |      |
|----------------------|-------------------|-----------------------------------|------|---------------|---------|---------|------------|-------|------------|-------|---|----|---|----|--|---|------|------|------|
|                      | Republic of China | Representative: Chien-Yi Hsu      | Male | June 24, 2016 | 3 years | 990625  | 0          | 0%    | 0          | 0%    | 0 | 0% | 0 | 0% | Dept. of Accounting, Soochow University  | Chairman: Chia Tai Construction Co., Ltd.; Representative of Institutional Supervisor: Taiwan Architecture Management Co., Ltd.; Supervisor: Chi Yi Architecture Management Co., Ltd.; Director: Lee Chien Cheng Memorial Education Foundation, Yi Kuang Enterprise Development Co., Ltd. | None | None | None |
| Director             | Republic of China | Chien Cheng Development Co., Ltd. | -    | June 24, 2016 | 3 years | 930527  | 19,400,192 | 6.44% | 18,806,192 | 6.24% | 0 | 0% | 0 | 0% | None   | None  | None | None | None |
|                      | Republic of China | Representative: Tien-Ching Yang   | Male | June 24, 2016 | 3 years | 930527  | 0          | 0%    | 0          | 0%    | 0 | 0% | 0 | 0% | Disciplined in commerce, Chang Hwa Senior Commercial High School                               | Representative of Institutional Director: Tsai Cheng Enterprise Co., Ltd.; Representative of Institutional Supervisor: Taiwan Fuji Molding Co., Ltd.; Director: Lee Chien Cheng Memorial Education Foundation; Supervisor: Chien Da Technology Co., Ltd.                                  | None | None | None |
| Independent Director | Republic of China | Jui-Tung Lu                       | Male | June 24, 2016 | 3 years | 1050624 | 0          | 0     | 0          | 0%    | 0 | 0  | 0 | 0% | Dept. of Business Administration, Tamkang University   | None  | None | None | None |
| Independent Director | Republic of China | Ming-Chieh Chen                   | Male | June 24, 2016 | 3 years | 930527  | 457,320    | 0.15% | 457,320    | 0.15% | 0 | 0% | 0 | 0% | Dept. of Chinese Medicine, Chung Hwa Medical College   | None  | None | None | None |
| Independent Director | Republic of China | Jui-Ping Lee                      | Male | June 24, 2016 | 3 years | 960615  | 226,000    | 0.08% | 226,000    | 0.08% | 0 | 0% | 0 | 0% | Business Administration, National Tam Shui Commercial Industrial Vocational Senior High School | Chairman: Home Gradinia Co., Ltd.; Director: Tien Shan Metal Industrial Co., Ltd.   | None | None | None |

Note 1: For Institutional Shareholders, the names of shareholders and their representatives shall be presented separately (for representatives of Institutional shareholders, specify the names of the institutional shareholders), and shall fill in Table 1 below.

Note 2: If the Directors or Supervisors of the Company assumed office for the first time, and there was interruption in the tenure, specify in supplementary note.

Note 3: Experience relevant to current positions, such as employed by the CPA firm or its affiliates retained by the Company in the aforementioned period, specify the occupational title and the professed duties.

Table 1: Dominant Shareholders of Institutional Shareholders

April 30, 2018

| Names of Institutional Shareholders (Note 1) | Dominant Shareholders of Institutional Shareholders (Note 2)  |
|--|---|
| Yi Chi Co., Ltd.                             | Cheng-Han Lee (50.29%) Hsiu-Chuen Lee-Yang (16.96%), Edward Y. C. Lee (12.33%), Ching-Ru, Lee (6.67%), Wei-Ru Lee (6.67%), Teh-Sung Yang (3.33%), Teh-Huei Yang (2.5%), Hsiu-Mei Yang (1.25%).  |
| Chien Yi Industrial Co., Ltd.                | Cheng-Tsung Lee (74.67%), Yue-Hwa Lee-Chang (12.07%) , Po-Wei Lee (7.53%) , Chan-Kuei Chang (2%) , Chi-Chuan Chang (1.33%) , Wan-Ling Lee (0.8%) , Wan-Chi Lee (0.8%) , Wan-Hsuen Lee (0.8%)  |
| Chimax Development Co., Ltd.                 | Chung-Lung Tu (16.33%) , Chi-Chen Tu (9.66%) , Chi-Jen Tu (9.66%) , Chao-Mei Lin (8%) , Chi-Hsiu Tu (5.6%) , Chi-Chung Tu (5.1%) , Chi-Hsiang Tu (5%) , Chi-Yuan Tu (5%) , Li-Rong Tu (0.68%)   |
| Chien Cheng Development Co., Ltd.            | Chien Yi Industrial Co., Ltd., (10.37%), Tu Ho Enterprise Co., Ltd. (9.34%), Yi Chi Co., Ltd. (6.44%), Po-Wen Yang (4.5%), Kai Heng Co., Ltd. (4.48%), Tsai Rai Enterprise Co., Ltd. (3.51%), Cheng-Tsung Lee (2.93%), Chu Kuan Enterprise Co., Ltd. (2.33%), Da Feng Construction Engineering Co., Ltd. (2.22%), Ching-Hsiang Chang (2.11%). |
| Da Feng Construction Engineering Co., Ltd.   | Tsai Cheng Enterprise Co., Ltd. (13.09%), Kai Heng Co., Ltd. (6.78%), Tu Ho Enterprise Co., Ltd. (6.57%), Po-Wen Yang (4.57%), Cheng-Han Lee (4.2%), Chien Yi Industrial Co., Ltd. (3.95%), Cheng-Tsung Lee (3.9%), Chia-Liang Chang (3.89%), Tsai Rai Enterprise Co., Ltd. (3%), Chu Kuan Enterprise Co., Ltd. (2.63%).                      |

Note 1: If the Directors and Supervisors are representatives of Institutional Directors, fill in the names of the Institutional Directors.

Note 2: Fill in the names of the dominant shareholders of the Institutional Shareholders (Top 10 by quantity of shareholding) and the proportion of shareholding. If the dominant shareholders of the Institutional Shareholders are also institutional shareholders, fill in Table 2 below.

Table 2: Table 1- Dominant shareholders of the Institutional Shareholders are institutional shareholders.

April 30, 2018

| Name of institution (Note 1)  | Dominant shareholders of the institution (Note 2)   |
|-------------------------------|---|
| Yi Chi Co., Ltd.              | Cheng-Han Lee (50.29%) , Hsiu-Chuen Lee-Yang (16.96%) , Edward Y. C. Lee (12.33%) , Ching-Ru Lee (6.67%) , Wei-Ru Lee (6.67%) , Teh-Sung Yang (3.33%) , Teh-Huei Yang (2.5%) , Hsiu-Mei Yang (1.25%)                              |
| Tu Ho Enterprise Co., Ltd.    | Cheng-Tu Lee (48.93%) , Cheng-Han Lee (17.14%) , Chia-Chia Lee (11.07%) , Ching-Fang Lee-Wu (8.57%) , Cheng-Tsung Lee (7.14%) , Chi-Wei Lee (2.86%) , You-You Lee (2.86%) , Hsiu-Chuen Lee-Yang (0.71%) , Tien-Ching Yang (0.71%) |
| Chien Yi Industrial Co., Ltd. | Cheng-Tsung Lee (74.67%) , Yue-Hwa Lee-Change (12.07%) , Po-Wei Lee (7.53%) , Chan-Kuei Chang (2%) , Chi-Chuan Chang  |

|  |   |
|--|---|
|  | (1.33%) , Wan-Ling Lee (0.8%) , Wan-Chi Lee (0.8%) , Wan-Hsuan Lee (0.8%)   |
| Tsai Rai Enterprise Co., Ltd.              | Pei-Chuen Lee , (98.33%) , Chin-Yun Chang (1.67%)   |
| Chu Kuan Enterprise Co., Ltd.              | Pei-Ting Lee (54.6%) , Cheng-Hsiu Tsai (5.63%), Ai-Ru Tsai (19.88%), Cheng-Han Tsai (19.88%).   |
| Tsai Cheng Enterprise Co., Ltd.            | Tu Ho Enterprise Co., Ltd. (18.18%), Chung Cheng Enterprise Co., Ltd. (8.33%), Chien Cheng Development Co., Ltd. (6.67%), Yi Chi Co., Ltd. (6.35%), Kai Heng Co., Ltd. (5.62%), Da Feng Construction Engineering Co., Ltd. (5%), Po-Wen Yang (4.5%), Chien Yi Industrial Co., Ltd. (4.41%), Huei-Lee Chang (4.02%), Chia-Liang Chang (2.71%). |
| Da Feng Construction Engineering Co., Ltd. | Tsai Cheng Enterprise Co., Ltd. (13.09%), Kai Heng Co., Ltd. (6.78%), Tu Ho Enterprise Co., Ltd. (6.57%), Po-Wen Yang (4.57%), Cheng-Han Lee (4.2%), Chien Yie Industrial Co., Ltd. (3.95%), C. C. Lee (3.9%), Chia-Liang Chang (3.89%), Tsai Rai Enterprise Co., Ltd. (3%), Chu Kuan Enterprise Co., Ltd. (2.63%).                           |
| Kai Heng Co., Ltd.                         | Yang-Ming Chen (3.07%) , Pei-Fen Lee (3.07%) , Kai-Lung Chen (15.13%) , Kai-Chun Chen (15.13%) , Ou-Shan Chang (0.13%) ,Cheng-Kuang Tseng (0.13%) , Chin-Yun Chang (0.13%) , You-Tsai Hsieh (0.13%,) Rong-Tai Fang (0.13%) , GOSUCCESS PROPERTIES LIMITED (62.93%)  |

Note 1: If the dominant shareholders in Table 1 are institutional shareholders, fill in the names of the Institutional Directors.

Note 2: Fill in the names of the dominant shareholders of the Institutional Shareholders (Top 10 by quantity of shareholding) and the proportion of shareholding.

2. Professional standing and independence of the Independent Directors

| Condition<br><br>Name (Note 1)                                 | More than 5 years of work experience and the following professional qualification  |  |   | Status of independence (Note 2) |   |   |   |   |   |   |   |   |    | Number of public companies that Independent Directors also hold positions |
|--|--|--|---|---------------------------------|---|---|---|---|---|---|---|---|----|---|
|  | As a lecturer or higher position at a public or private school of higher education in commerce, law, finance and banking, accounting, or the disciplines and subject required for company operation. | Professional or expert through national examinations with issuance of certificates such as court judge, public prosecutor, lawyer, accountants or other specialization required for company operation. | Work experience in commerce, law, finance and banking, accounting or necessary for company operation. | 1                               | 2 | 3 | 4 | 5 | 6 | 7 | 8 | 9 | 10 |   |
| Yi Chi Co., Ltd.; Representative: Cheng-Han Lee                |  |  | ✓   | ✓                               | ✓ | ✓ |   |   | ✓ | ✓ |   | ✓ |    | None  |
| Chien Yi Industrial Co., Ltd.; Representative: Cheng-Tsung Lee |  |  | ✓   | ✓                               | ✓ | ✓ |   |   | ✓ | ✓ |   | ✓ |    | None  |
| Cheng-Tu Lee   |  |  | ✓   | ✓                               | ✓ |   |   |   | ✓ | ✓ |   | ✓ | ✓  | None  |
| Yi-Lung Lai  |  |  | ✓   | ✓                               | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | None  |
| Shao-Ying Lee  |  |  | ✓   | ✓                               | ✓ | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓ | ✓  | None  |
| Chimax Development Co., Ltd.; Representative: Chi-Chen Tu      |  |  | ✓   | ✓                               | ✓ | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓ |    | None  |
| David Huang  |  |  | ✓   |                                 | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓  | None  |
| Cheng-Chin Lee   |  |  | ✓   | ✓                               | ✓ | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓ | ✓  | None  |

|  |  |  |   |   |   |   |   |   |   |   |   |   |   |      |
|--|--|--|---|---|---|---|---|---|---|---|---|---|---|------|
| Da Feng Construction Engineering Co., Ltd.; Representative: Chien-Yi Hsu |  |  | ✓ | ✓ | ✓ | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓ |   | None |
| Chien Cheng Development Co., Ltd.; Representative: Tien-Ching Yang       |  |  | ✓ | ✓ | ✓ | ✓ | ✓ |   | ✓ | ✓ | ✓ | ✓ |   | None |
| Jui-Tung Lu  |  |  | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Ming-Chieh Chen  |  |  | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |
| Jui-Ping Lee   |  |  | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | None |

Note 1: the field is adjustable to the required space.

Note 2: If any of the following is applicable to the Directors and Supervisors in the period of 2 years prior to the election to office and within the term of office, put a “✓” in the appropriate box below.

- (1) Not an employee of the Company or its affiliates.
- (2) Not a Director, Supervisor (except as an Independent Director of the Company or its parent company, subsidiaries which seat was established in accordance of local law or the law of the host country) of the affiliates of the Company.
- (3) The person, spouse, dependents or a third party who is a natural person shareholder holding more than 1% of the outstanding shares of the Company or among the top 10 shareholders of the Company.
- (4) Not the spouse, kindred within the 2nd tier under the Civil Code or within the 5th tier of the consanguinity of the persons specified from (1)to (3).
- (5) Not a Director, Supervisor, or employee of an institutional shareholder in direct holding of more than 5% of the outstanding shares of the Company, or a Director, Supervisor, or employee among the top 5 institutional shareholders of the Company.
- (6) Not a Director, Supervisor, manager or shareholders holding more than 5% of the shares of particular company or institution with financial or business transactions with the Company.
- (7) Not a proprietor, partner, director, supervisor, manager and the spouse to the aforementioned persons of a professional firm, sole proprietorship, partnership, company or institution providing business, legal, financial, and accounting service or consultation services to the Company or affiliates. Members of the remuneration committee performing their duties pursuant to Article 7 of the Regulations Governing the Appointment and Exercise of Powers by the Remuneration Committee of a Company Whose Stock is Listed on the Stock Exchange or Traded Over the Counter are excluded.
- (8) Not a spouse to other Directors or kindred within the 2nd tier under the Civil Code.
- (9) None of the particulars inscribed in Article 30 of the Company Act is applicable.
- (10) No government, institution or their representatives under Article 27 of the Company Act was elected.



## (II) Profiles of the President, Senior Vice Presidents, Vice Presidents, heads of the departments and branches.

April 30, 2018

| Occupational Title<br>(Note 1)          | Nationality       | Name              | Sex    | Date of<br>(elected to )<br>office | Quantity of<br>shareholding |                               | Shareholding by<br>spouse and<br>dependents |                               | Shareholding in<br>the name of a<br>third party |                               | Major work experience<br>(education) (Note 2)                          | Holding positions in other<br>companies at present  | A spouse or kindred within the 2nd tier<br>under the Civil Code to a manager |      |          |
|---|-------------------|-------------------|--------|------------------------------------|-----------------------------|-------------------------------|---|-------------------------------|---|-------------------------------|--|---|--|------|----------|
|   |                   |                   |        |                                    | Quantity of<br>shares       | Proportion of<br>shareholding | Quantity<br>of shares                       | Proportion of<br>shareholding | Quantity of<br>shares                           | Proportion of<br>shareholding |  |   | Occupational<br>title  | Name | Relation |
| President                               | Republic of China | Jack Chen         | Male   | January 01, 2018                   | 55,161                      | 0.02%                         | 2,343                                       | 0%                            | 0   | 0%                            | Dept. of Business Administration, Soochow University                   | None  | None   | None | None     |
| Chief Internal Auditor                  | Republic of China | Ching Chang Chen  | Male   | September 01, 2009                 | 37,761                      | 0.01%                         | 0   | 0%                            | 0   | 0%                            | Dept. of Business Administration, Feng Chia University                 | None  | None   | None | None     |
| Chief Compliance Office at corporate HQ | Republic of China | Jen-Huai Liu      | Male   | January 01, 2017                   | 488                         | 0.00%                         | 0   | 0%                            | 0   | 0%                            | Dept. of Law, Fu Jen Catholic University                               | None  | None   | None | None     |
| Executive Vice President                | Republic of China | C. S. Lin         | Male   | April 27, 2006                     | 34,854                      | 0.01%                         | 61,008                                      | 0.02%                         | 0   | 0%                            | EMBA, Aletheia University  | Director: Lee Chien Cheng Memorial Education Foundation   | None   | None | None     |
| Executive Vice President                | Republic of China | Y. L. Chou        | Male   | September 05, 2014                 | 359,970                     | 0.12%                         | 0   | 0%                            | 0   | 0%                            | Dept. of Accounting, National Cheng Chi University                     | None  | None   | None | None     |
| Executive Vice President                | Republic of China | Stephen S.C. Shen | Male   | February 01, 2015                  | 0                           | 0%                            | 0   | 0%                            | 0   | 0%                            | Master of Risk Management and Insurance, National Cheng Chi University | Director: The Insurance Operations Society of the Republic of China; Supervisor: Chinese Insurance Service Association. | None   | None | None     |
| Executive Vice President                | Republic of China | Tom C. T. Chen    | Male   | September 05, 2014                 | 168,888                     | 0.06%                         | 0   | 0%                            | 0   | 0%                            | Dept. of Foreign Languages, National Taiwan University                 | None  | None   | None | None     |
| Asst VP Accident Insurance Department   | Republic of China | Emerson Chien     | Male   | September 05, 2014                 | 0                           | 0%                            | 0   | 0%                            | 0   | 0%                            | EMBA, National Cheng Chi University                                    | None  | None   | None | None     |
| Asst VP, Risk Control Department        | Republic of China | Chu-Minn Leu      | Female | September 05, 2014                 | 57,250                      | 0.02%                         | 0   | 0%                            | 0   | 0%                            | Master of Applied Mathematics, National Tsing Hua University           | None  | None   | None | None     |
| Manager, Actuarial Dept.                | Republic of China | Chen-Hsiung Lin   | Male   | December 01, 2011                  | 0                           | 0%                            | 0   | 0%                            | 0   | 0%                            | Dept. of Applied Mathematics, National Chiao Tung University           | None  | None   | None | None     |
| Vice President, Marine Insurance Dept.  | Republic of China | Jack Chu          | Male   | January 01, 2017                   | 80,000                      | 0.03%                         | 3,000                                       | 0%                            | 0   | 0%                            | Dept. of Banking and Insurance, Feng Chia University                   | None  | None   | None | None     |

|  |                   |                  |        |                    |           |       |        |       |   |    |   |   |      |      |      |      |
|--|-------------------|------------------|--------|--------------------|-----------|-------|--------|-------|---|----|---|---|------|------|------|------|
| Manager, Accounting Dept.                    | Republic of China | Fei-Fen Hsiao    | Female | March 01, 2018     | 0         | 0.00% | 0      | 0%    | 0 | 0% | Dept. of Banking and Insurance, Hsiung Wu University                          | None  | None | None | None |      |
| Vice President, Administration Dept.         | Republic of China | Edward Y. C. Lee | Male   | January 01, 2017   | 2,807,896 | 0.93% | 0      | 0%    | 0 | 0% | Master of Chemical Materials, Michigan State University                       | Director: Yi Chih Co., Ltd.; Representative of Institutional Director: Chien Cheng Development Co., Ltd., Tsai Cheng Enterprise Co., Ltd. | None | None | None | None |
| Manager, Information Dept.                   | Republic of China | Beiru Lee        | Female | April 01, 2017     | 67,138    | 0.02% | 5,000  | 0%    | 0 | 0% | Dept. of Applied Mathematics, National Cheng Kung University                  | None  | None | None | None | None |
| Manager, Planning Dept.                      | Republic of China | Yeong-Rong Hsiao | Male   | September 05, 2014 | 0         | 0%    | 0      | 0%    | 0 | 0% | Dept. of Insurance, Tamkang University  | None  | None | None | None | None |
| Manager, Accident and Health Insurance Dept. | Republic of China | Ping-Chang Chou  | Male   | April 01, 2018     | 23,023    | 0.01% | 18,127 | 0.01% | 0 | 0% | Dept. of Horticulture, National Pingtung University of Science and Technology | None  | None | None | None | None |
| Manager, Motor Insurance Dept.               | Republic of China | Chang-Hong Chen  | Male   | April 01, 2018     | 31,352    | 0.01% | 19,684 | 0.01% | 0 | 0% | Dept. of Banking and Insurance, Feng Chia University                          | None  | None | None | None | None |
| Manager, Customer Service Dept.              | Republic of China | Chien-Wen Chen   | Male   | April 01, 2018     | 0         | 0%    | 0      | 0%    | 0 | 0% | News Editing and Coverage, Shih Hsin University                               | None  | None | None | None | None |
| Manager, Taipei Region                       | Republic of China | Te-Chun Chiang   | Male   | April 01, 2018     | 280       | 0%    | 0      | 0%    | 0 | 0% | Dept. of Business Administration, Shih Chien University                       | None  | None | None | None | None |
| Taipei Branch Office                         | Republic of China | S. Q. Chen       | Male   | September 05, 2014 | 41,963    | 0.01% | 0      | 0%    | 0 | 0% | Dept. of Chinese Literature, National Taiwan University                       | None  | None | None | None | None |
| Taochu Branch Office                         | Republic of China | Tony J.Y. Wang   | Male   | February 19, 2017  | 207,831   | 0.07% | 0      | 0%    | 0 | 0% | Dept. of Accounting and Statistics, Chihlee University of Technology          | None  | None | None | None | None |
| Taichung Branch Office                       | Republic of China | Hsu-Wei Chen     | Male   | January 01, 2014   | 28,261    | 0.01% | 5,545  | 0%    | 0 | 0% | Asia University Dept. of International Business Administration                | None  | None | None | None | None |
| Tainan Branch Office                         | Republic of China | Wen-Tung Yen     | Male   | May 30, 2008       | 35,608    | 0.01% | 0      | 0%    | 0 | 0% | Dept. of Land Administration and Development, Chang Jung Christian University | None  | None | None | None | None |
| Kaohsiung Branch Office                      | Republic of China | H. C. Huang      | Male   | June 16, 2006      | 138,646   | 0.05% | 0      | 0%    | 0 | 0% | MBA, National Chiayi University   | None  | None | None | None | None |

Note 1: Profiles of the President, Executive Vice Presidents, Vice Presidents, heads of the departments and branches shall be included. In addition, personnel at the ranks relevant to the Presidents, Executive Vice Presidents, Vice Presidents, shall also be included regardless of the occupational title.

Note 2: Work experience relevant with the current position, such as the experience in a CPA firm or its affiliate within the aforementioned period of time, and specify the occupational title and the professed duties.

(III) Remunerations to the Directors (including Independent Directors), Supervisors, President, and Executive Vice Presidents in the most recent year:

If any of the following is applicable, disclose the names and remunerations to the Directors or Supervisors individually. The others could be disclosed in aggregate along the scale of payment, or the names and remunerations individually (for individual disclosure, specify the occupational title, name, and amount, and skip the bracket along the payment scale):

1. If there was a loss after taxation as presented in the financial statements covering the last 2 years, disclose the name and remuneration to individual “Directors and Supervisors”. If there is earnings after taxation as stated in the financial statements of the most recent year sufficient to cover the loss carried forward, this requirement could be waived. If IFRSs were adopted in the presentation of financial information, and there was a loss after taxation as presented in the separate financial statements, disclose the name and remuneration to individual “Directors and Supervisors”. If there is earnings after taxation as stated in the separate financial statements of the most recent year sufficient to cover the loss carried forward, this requirement could be waived. (Note 1)
2. If the shareholding of particular Director fell below the minimum requirements for more than 3 consecutive months in the most recent year, disclose the remuneration to such Director. If the shareholding of particular Supervisor fell below the minimum requirements for more than 3 consecutive months in the most recent year, disclose the remuneration to such Supervisor.
3. If particular Director or Supervisor pledged more than 50% of the shares in their holding in average under lien in any period of 3 months in the most recent year, disclose the remunerations to such Director or Supervisor in respective months in which the pledge of shares under lien exceeded 50% of their holding. (Note 3).
4. If all the Directors and Supervisors received more than 2% of the earnings after taxation of all companies included in the financial statements, and the remuneration to individual Directors or Supervisors is more than NT\$15 million, disclose the remunerations to individual Directors or Supervisors.

(Note 1) For example: The General Meeting of Shareholders in 2015 compiled the annual report of 2014. If there was a loss after taxation as presented in the separate financial statements of 2013, or, there was a loss after taxation as presented in the separate financial statements of 2014, disclosure shall be made separately. Although there was a loss after taxation as presented in the separate financial statements of 2013, the earnings after taxation as presented in the separate financial statements is sufficient to cover the loss carried forward, separate disclosure is not necessary.

(Note 2) For example: The General Meeting of Shareholders in 2010 compiled the annual report of 2009, and the shareholding of particular Director or Supervisor fell below the minimum requirement for more than 3 consecutive months in the period of January 1 to December 31 of 2009, disclosure shall be made individually. If shareholding of particular Director or Supervisor fell below the minimum requirement for more than 3 consecutive months in the period of January of 2009 (which was, November and December of 2008 and January of 2009), disclosure shall also be made individually.

(Note 3) For example: The General Meeting of Shareholders in 2010 compiled the annual report of 2009, and assuming all the Directors pledged their shares in holding under lien exceeding 50% in average in any 3 months of February, May and August of 2009, remunerations to the Directors whose pledge of shares under lien exceeding 50% of their holding in the respective months of February, May, and August shall be disclosed separately. If the Supervisors pledged their shares in holding under lien exceeding 50% in average in any 3 months, remunerations to the Supervisors whose pledge of shares under lien exceeding 50% of their holding in the respective months shall be disclosed separately.

※ Pledge of shares under lien in monthly average by all Directors: Quantity of shares pledged by all Directors/quantity of shareholding by all Directors (including the quantity of shares under trust retained for balloting). Pledge of shares under lien in monthly average by all Supervisors: Quantity of shares pledged by all Supervisors/quantity of shareholding by all Supervisors (including the quantity of shares under trust retained for balloting).

1. Remunerations to Directors (including Independent Directors) (disclosure of names in aggregate in different brackets along the payment scale)

(in NT\$ 1,000)

| Occupational title   | Name  | Remuneration to Director  |   |                                   |   |  |   |   |   | The sum of A, B, C, and D in proportion to net income (Note 10). |   | Remuneration for performance of works as employees. |   |                                   |   |  |   | The sum of A, B, C, D, E, F, and G in proportion to net income (Note 10) |  | Any remuneration from investees other than the subsidiaries (Note 11) |
|----------------------|---|---------------------------|---|-----------------------------------|---|--|---|---|---|--|---|---|---|-----------------------------------|---|--|---|--|--|---|
|                      |   | Remuneration (A) (Note 2) |   | Severance payment and pension (B) |   | Remuneration to Directors (C) (Note 3) |   | Fees for performance of work (D) (Note 4) |   |  |   | Salaries, bonus, and special subsidy (E) (Note 5)   |   | Severance payment and pension (F) |   | Remuneration to employees (G) (Note 6) |   |  |  |   |
|                      |   | The Company               | Companies included in the financial statements (Note 7) | The Company                       | Companies included in the financial statements (Note 7) | The Company                            | Companies included in the financial statements (Note 7) | The Company                               | Companies included in the financial statements (Note 7) | The Company  | Companies included in the financial statements (Note 7) | The Company   | Companies included in the financial statements (Note 7) | The Company                       | Companies included in the financial statements (Note 7) | The Company                            | Companies included in the financial statements (Note 7) |  |  |   |
|                      |   |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Chairman             | Yi Chih Co., Ltd.<br>Representative:<br>Cheng-Han Lee                         |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Chien Yi Industrial Co., Ltd.<br>Representative:<br>Cheng-Tsung Lee           |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Cheng-Tu Lee  |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Y.L. Lai  |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Shao-Ying Lee   |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Chimax Development Co., Ltd.<br>Representative:<br>Chi-Chen Tu                |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | David Huang   |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Cheng-Tsung Lee   | 8,260                     | -   | -                                 | -   | 3,121                                  | -   | -   | -   | 2.47%  | 3,499   | 9,113   | 29  |                                   |   |  | 5.22%   | No.  |  |   |
| Director             | Chien Cheng Development Co., Ltd.<br>Representative:<br>Tien-Ching Yang       |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Director             | Da Feng Construction Engineering Co., Ltd.<br>Representative:<br>Chien-Yi Hsu |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Independent Director | Jui-Tung Lu   |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Independent Director | Ming-Chieh Chen   |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |
| Independent Director | Jui-Ping Lee  |                           |   |                                   |   |  |   |   |   |  |   |   |   |                                   |   |  |   |  |  |   |

\* Remuneration to Directors for rendering services (such as consultants) in favor of the companies included in the financial statements in the most recent year other than the disclosures in the above table: NT\$360,000

## Remuneration scale

| Payment scale of remuneration to the Directors of the Company | Name of Director  |   |  |   |
|---|---|---|--|---|
|   | The sum total of A + B + C + D  |   | The sum total of A + B + C + D + E + F + G   |   |
|   | The Company (Note 8)  | Companies included in the financial statements (Note 9) H | The Company (Note 8)   | Companies included in the financial statements (Note 9) I |
| Less than NT\$2,000,000                                       | Yi-Lung Lai, Ching-Chuan Huang, Ming-Chieh Chen; Chimax Development Co., Ltd, Representatives: Chi-Chen Tu, Cheng-Tu Lee, Jui-Ping Lee, Shao-Ying Lee, Cheng-Chin Lee; Chien Yi Industrial Co., Ltd. Representatives: Cheng-Tsung Lee; Da Feng Construction Co., Ltd. Representative: Chien-Yi Hsu; Chien Cheng Development Co., Ltd. Representative: Tien-Ching Yang, Jui-Tung Lu. | -   | Yi-Lung Lai, Ming-Chieh Chen; Primax Development Co., Ltd. Representatives: Chi-Chen Tu, Cheng-Tu Lee, Jui-Ping Lee, Shao-Ying Lee, Cheng-Chin Lee; Chien Yi Industrial Co., Ltd. Representative: Cheng-Tsung Lee; Da Feng Construction Engineering Co., Ltd. Representative: Chien-Yi Hsu; Chien Cheng Co., Ltd. Representatives: Tien-Ching Yang, Jui-Tung Lu. | -   |
| NT\$2,000,000 (inclusive) ~NT\$5,000,000(exclusive)           | Yi Chih Co., Ltd.; Representative: Cheng-Han Lee  | -   | Yi Chih Co., Ltd.; Representative: Cheng-Han Lee   | -   |
| NT\$5,000,000 (inclusive) ~NT\$10,000,000(exclusive)          | -   | -   | -  | -   |
| NT\$10,000,000 (inclusive) ~NT\$15,000,000(exclusive)         | -   | -   | David Huang  | -   |
| NT\$15,000,000 (inclusive)~NT\$30,000,000(exclusive)          | -   | -   | -  | -   |
| NT\$30,000,000 (inclusive)~NT\$50,000,000(exclusive)          | -   | -   | -  | -   |
| NT\$50,000,000 (inclusive)~NT\$100,000,000(exclusive)         | -   | -   | -  | -   |
| More than NT\$100,000,000                                     | -   | -   | -  | -   |
| Total   | 13  | -   | 13   | -   |

- Note 1: Directors shall be identified by name for presentation (both the name of shareholder and name of representative shall be presented separately for institutional shareholders) and the amount of payment shall be itemized in aggregate for disclosure. If particular Director also assumes the position as President or Vice President, fill in this table and the table below (3-1) or (3-2)
- Note 2: The remuneration to Directors in the most recent year (including the Director salaries, job subsidy, severance payment, the bonuses and rewards).
- Note 3: The amount of remuneration to Directors in the most recent year as passed by the Board.
- Note 4: The fees for the performance of works by Directors in the most recent year (including traveling subsidy, special subsidy, various forms of subsidies, housing, company cars and other supplies in kind). If housing, company car and other means of transportation were provided or the spending is exclusive to particular person, disclosure the nature of the assets provided and the cost thereof, rent actually disbursed or at fair market value, fuel allowance and other subsidies. If a driver was assigned, specify the remuneration to such driver but not include as a part of the remuneration.
- Note 5: Payment to Directors for performing works as employees in the most recent year (including the position as the President, Executive Vice Presidents, Managers, and staff), including salaries, job subsidy, severance payment, the bonuses and rewards, traveling subsidy, special subsidy, various forms of subsidies, housing, company cars and other supplies in kind. If housing, company car and other means of transportation were provided or the spending is exclusive to particular person, disclosure the nature of the assets provided and the cost thereof, rent actually disbursed or at fair market value, fuel allowance and other subsidies. If a driver was assigned, specify the remuneration to such driver but not include as a part of the remuneration. According to IFRS 2, “Share-Based Payments”, salary expenses for recognition shall include ESO, restricted ESO, and subscription of new shares for raising capital, which shall be included in remuneration.
- Note 6: Payment (including cash and stocks) to Directors for performing works as employees in the most recent year (including the position as the President, Vice Presidents, Managers, and staff), which amount for distribution as passed by the Board in the most recent year shall be disclosed. If estimation is not possible, calculate the amount planned to pay out in current period on the basis of the actual payment in the previous year, and fill in Table 1-3.
- Note 7: Disclose the total amount of remunerations from all companies (including the Company) included in the consolidated financial statements paid to the Directors of the Company.
- Note 8: The names of the Directors shall be disclosed in relevant brackets of the total amount of itemized payment to the Directors of the Company.
- Note 9: The total amount of itemized payment from all companies (including the Company) included in the consolidated financial

statements to each Director of the Company with the name disclosed in relevant brackets along the payment scale.

Note 10: Net income or earnings after taxation refers to that of current period. If IFRSs has been adopted, net income will be the earnings after taxation as stated in the separate financial statements of the most recent year.

Note 11: a. State the exact amount of remuneration from investees other than the subsidiaries to the Directors.

b. Directors who have received remunerations from investees other than the subsidiaries shall include such amount in relevant bracket of the payment scale in field I, and change the field name as “all investees”.

c. Remunerations referred to Directors of the Company who also received remunerations and salaries (including salaries for employees, Directors and Supervisors) from investees other than the subsidiaries in the capacity of Directors, Supervisors, or managers, and the payments for performing works.

\* The content of remuneration for disclosure in this table is different from the concept of the Income Tax Act. This table is for disclosure purpose only and not for taxation purpose.

## 2. Remunerations to Supervisors (disclosure of the names in relevant brackets along the payment scale)

(in NT\$ 1,000)

| Occupational title | Name | Remuneration to Supervisor |   |                       |   |  |   | The sum of A, B, and C in proportion to net income. (Note 8) |   | Any remuneration from investees other than the subsidiaries (Note 9) |
|--------------------|------|----------------------------|---|-----------------------|---|--|---|--|---|--|
|                    |      | Remuneration (A) (Note 2)  |   | Salaries (B) (Note 3) |   | Fees for performance of works (C) (Note 4) |   | The Company  | Companies included in the financial statements (Note 5) |  |
|                    |      | The Company                | Companies included in the financial statements (Note 5) | The Company           | Companies included in the financial statements (Note 5) | The Company                                | Companies included in the financial statements (Note 5) |  |   |  |
| -                  | -    | -                          | -   | -                     | -   | -  | -   | -  | -   | -  |

### Payment Scale

| Remuneration to Supervisors in relevant brackets along the payment scale | Name of Supervisor   |   |
|--|----------------------|---|
|  | The sum of A + B + C |   |
|  | The Company (Note 6) | Companies included in the financial statements (Note 7) D |
| Less than NT\$2,000,000  | -                    | -   |
| NT\$2,000,000 (inclusive) ~NT\$5,000,000(exclusive)                      | -                    | -   |
| NT\$5,000,000 (inclusive) ~NT\$10,000,000(exclusive)                     | -                    | -   |
| NT\$10,000,000 (inclusive) ~NT\$15,000,000(exclusive)                    | -                    | -   |
| NT\$15,000,000 (inclusive)~NT\$30,000,000(exclusive)                     | -                    | -   |
| NT\$30,000,000 (inclusive)~NT\$50,000,000(exclusive)                     | -                    | -   |
| NT\$50,000,000 (inclusive)~NT\$100,000,000(exclusive)                    | -                    | -   |
| More than NT\$100,000,000  | -                    | -   |
| Total  | -                    | -   |



- Note 1: Supervisors shall be identified by name for presentation (both the name of shareholder and name of representative shall be presented separately for institutional shareholders) and the amount of payment shall be itemized in aggregate in disclosure.
- Note 2: The remuneration to Supervisors in the most recent year (including the Supervisor salaries, job subsidy, severance payment, the bonuses and rewards).
- Note 3: The amount passed by the Board as remunerations to the Supervisors prior to the session of the General Meeting of Shareholders for discussion on the proposal of the distribution of earnings in the most recent year.
- Note 4: The fees for the performance of works by Supervisors in the most recent year (including traveling subsidy, special subsidy, and various forms of subsidies, housing, company cars and other supplies in kind). If housing, company car and other means of transportation were provided or the spending is exclusive to particular person, disclosure the nature of the assets provided and the cost thereof, rent actually disbursed or at fair market value, fuel allowance and other subsidies. If a driver was assigned, specify the remuneration to such driver but not include as a part of the remuneration.
- Note 5: Disclose the total amount of remunerations from all companies (including the Company) included in the consolidated financial statements paid to the Supervisors of the Company.
- Note 6: The names of the Supervisors shall be disclosed at relevant brackets of the total amount of itemized payment to the Supervisors of the Company.
- Note 7: The total amount of itemized payment from all companies (including the Company) included in the consolidated financial statements to each Supervisor of the Company with the name disclosed in relevant brackets along the payment scale.
- Note 8: Net income or earnings after taxation refers to that of current period. If IFRSs has been adopted, net income will be the earnings after taxation as stated in the separate financial statements of the most recent year.
- Note 9: a. Supervisors shall state the exact amount of remuneration from investees other than the subsidiaries.  
b. Supervisors who have received remunerations from investees other than the subsidiaries shall include such amount in relevant bracket of the payment scale in field D, and change the field name as “all investees”.  
c. Remunerations referred to Supervisors of the Company who also received remunerations and salaries (including salaries for employees, Directors and Supervisors) from investees other than the subsidiaries in the capacity of Directors, Supervisors, or managers, and the payments for performing works.
- \* The Company phased out the positions of Supervisors in the election of 2016 and beyond.

### 3. Remunerations to the President and Executive Vice Presidents (disclosure of names in aggregate in different brackets along the payment scale).

(in NT\$ 1,000)

| Occupational title       | Name              | Salaries (A)<br>(Note 2) |   | Severance payment and pension (B) |   | Bonus and special subsidy (C)<br>(Note 3) |   | Remuneration to employees (D)<br>(Note 4) |              |   |              | The sum of A, B, C, and D in proportion to net income (%) (Note 8). |   | Any remuneration from investees other than the subsidiaries (Note 9) |
|--------------------------|-------------------|--------------------------|---|-----------------------------------|---|---|---|---|--------------|---|--------------|---|---|--|
|                          |                   | The Company              | Companies included in the financial statements (Note 5) | The Company                       | Companies included in the financial statements (Note 5) | The Company                               | Companies included in the financial statements (Note 5) | The Company                               |              | Companies included in the financial statements (Note 5) |              | The Company   | Companies included in the financial statements (Note 5) |  |
|                          |                   |                          |   |                                   |   |   |   | Cash amount                               | stock amount | Cash amount   | stock amount |   |   |  |
| President                | David Huang       | <b>16,205</b>            | -   | <b>9,113</b>                      | -   | -   | -   | <b>138</b>                                | -            | -   | -            | <b>5.53%</b>  | -   | <b>None</b>  |
| Executive Vice President | C. S. Lin         |                          |   |                                   |   |   |   |   |              |   |              |   |   |  |
| Executive Vice President | Tony T. Y. Wei    |                          |   |                                   |   |   |   |   |              |   |              |   |   |  |
| Executive Vice President | Y. L. Chou        |                          |   |                                   |   |   |   |   |              |   |              |   |   |  |
| Executive Vice President | Jack Chen         |                          |   |                                   |   |   |   |   |              |   |              |   |   |  |
| Executive Vice President | Stephen S.C. Shen |                          |   |                                   |   |   |   |   |              |   |              |   |   |  |

\* Disclosure is required regardless of the occupational title. Positions relevant with the President, Executive Vice Presidents (such as: President, CEO, Director and so forth).

## Payment scale

| Brackets along the scale for payments to the Presidents and individual Executive Vice Presidents. | Names of the President and Executive Vice Presidents                          |   |
|---|---|---|
|   | The Company (Note 6)  | Companies included in the financial statements (Note 7) |
| Less than NT\$2,000,000   | -   | -   |
| NT\$2,000,000 (inclusive) ~NT\$5,000,000(exclusive)   | <b>Tony T. Y. Wei, C. S. Lin, Y. L Chou, Jack Chen, and Stephen S.C. Shen</b> | -   |
| NT\$5,000,000 (inclusive) ~NT\$10,000,000(exclusive)  | -   | -   |
| NT\$10,000,000 (inclusive) ~NT\$15,000,000(exclusive)   | <b>David Huang</b>  | -   |
| NT\$15,000,000 (inclusive)~NT\$30,000,000(exclusive)  | -   | -   |
| NT\$30,000,000 (inclusive)~NT\$50,000,000(exclusive)  | -   | -   |
| NT\$50,000,000 (inclusive)~NT\$100,000,000(exclusive)   | -   | -   |
| More than NT\$100,000,000   | -   | -   |
| Total   | 6   | -   |

- Note 1: The President and Executive Vice Presidents shall be identified by name for presentation and the amount of payment shall be itemized in aggregate for disclosure. If a particular Director also assumes the position as President or Vice President, fill in this table and the above table (1-1) or (1-2)
- Note 2: The remuneration to the President and Executive Vice Presidents in the most recent year including the salaries, job subsidy, and severance payment.
- Note 3: The rewards, traveling subsidy, special subsidy, various forms of subsidies, housing, company cars and other supplies in kind and other forms of remunerations to the President and Executive Vice Presidents in the most recent year. If housing, company car and other means of transportation were provided or the spending is exclusive to particular person, disclosure the nature of the assets provided and the cost thereof, rent actually disbursed or at fair market value, fuel allowance and other subsidies. If a driver was assigned, specify the remuneration to such driver but not include as a part of the remuneration. According to IFRS 2, "Share-Based Payments", salary expenses for recognition shall include ESO, restricted ESO, and subscription of new shares for raising capital, which shall be included in remuneration.
- Note 4: Payment (including cash and stocks) to Directors for performing works as employees in the most recent year (including the position as the President, Vice Presidents, managers, and staff), which amount for distribution as passed by the Board in the most recent year shall be disclosed. If estimation is not possible,

calculate the amount planned to pay out in current period on the basis of the actual payment in the previous year, and fill in Table 1-3. Net income or earnings after taxation refer to that of current period. If IFRSs has been adopted, net income will be the earnings after taxation as stated in the separate financial statements of the most recent year.

- Note 5: Disclose the total amount of remunerations from all companies (including the Company) included in the consolidated financial statements paid to the President and Executive Vice Presidents of the Company by item.
- Note 6: The names of the President and each Executive Vice Presidents shall be disclosed at relevant brackets of the total amount of itemized payment to the President and each Executive Vice Presidents of the Company.
- Note 7: The total amount of itemized payment from all companies (including the Company) included in the consolidated financial statements to the President and each Executive Vice President of the Company with the name disclosed in relevant brackets along the payment scale.
- Note 8: Net income or earnings after taxation refers to that of current period. If IFRSs has been adopted, net income will be the earnings after taxation as stated in the separate financial statements of the most recent year.
- Note 9: a. State the exact amount of remuneration from investees other than the subsidiaries to the President and the Executive Vice Presidents.
- b. The President and the Executive Vice Presidents who have received remunerations from investees other than the subsidiaries shall include such amount in relevant bracket of the payment scale in field E, and change the field name as “all investees”.
- c. Remunerations referred to President and the Executive Vice Presidents of the Company who also received remunerations and salaries (including salaries for employees, Directors and Supervisors) from investees other than the subsidiaries in the capacity of Directors, Supervisors, or managers, and the payments for performing works.

\* The content of remuneration for disclosure in this table is different from the concept of the Income Tax Act. This table is for disclosure purpose only and not for taxation purpose.

4. Names of the managers receiving remuneration to employees and the status of payment-  
December 31, 2017 (in NT\$ 1,000)

|  | Occupational title<br>(Note 1)        | Name<br>(Note 1)              | Amount in<br>stock | Amount in cash | Total      | The total<br>amount in<br>proportion<br>to net<br>income (%) |
|--|---------------------------------------|-------------------------------|--------------------|----------------|------------|--|
| <b>Managers</b>                            | President                             | Ching-Chuan<br>Huang (Note 6) | —                  | <b>401</b>     | <b>401</b> | <b>0.09%</b>   |
|  | Senior<br>Executive Vice<br>President | C. S. Lin                     |                    |                |            |  |
|  | Executive Vice<br>President           | Y. L. Chou                    |                    |                |            |  |
|  | Executive Vice<br>President           | Jack Chen<br>(Note 6)         |                    |                |            |  |
|  | Executive Vice<br>President           | Stephen S.C.<br>Shen          |                    |                |            |  |
|  | Executive Vice<br>President           | Tony T. Y. Wei<br>(Note 7)    |                    |                |            |  |
|  | Senior Vice<br>President              | H. C. Huang                   |                    |                |            |  |
|  | Vice President                        | Edward Y. C. Lee              |                    |                |            |  |
|  | Vice President                        | Chu-Minn Leu                  |                    |                |            |  |
|  | Vice President                        | Tom C. T. Chen                |                    |                |            |  |
|  | Vice President                        | Emerson Chien                 |                    |                |            |  |
|  | Vice President                        | S. Q. Chen                    |                    |                |            |  |
|  | Vice President                        | Jack Chu                      |                    |                |            |  |
|  | Manager                               | Chen-Hsiung Lin               |                    |                |            |  |
|  | Manager                               | Hsu-Wei Chen<br>Manager,      |                    |                |            |  |
|  | Manager                               | Wen-Tung Yen                  |                    |                |            |  |
|  | Manager                               | Yeong-Rong<br>Hsiao           |                    |                |            |  |
|  | Manager                               | Robert Wu<br>(Note 8)         |                    |                |            |  |
|  | Manager                               | Tony J.Y. Wang                |                    |                |            |  |
|  | Manager                               | Beiru Lee                     |                    |                |            |  |
| Vice President,<br>Administration<br>Dept. | Jen-Huai Liu                          |                               |                    |                |            |  |
| Manager,<br>Accounting<br>Dept.            | Ching-Chang<br>Chen (Note 9)          |                               |                    |                |            |  |

Note 1: Names and occupational titles shall be disclosed individually. However, payment could be disclosed in aggregate.

Note 2: Fill in the amount of remuneration to employees paid to the managers in the most recent year under the resolution of the Board (including stock and cash). If estimate is not possible, calculate the amount of payment planned to pay in current period in proportion to the actual payment of the previous year. Net income or earnings after taxation refer to that of current period. If IFRSs has been adopted, net income will be the earnings after taxation as stated in the separate financial statements of the most recent year.

Note 3: The scope of managers shall be defined under Letter Tai-Cai-Zheng- (III)-Zi No. 0920001301 dated March 27, 2003, which is specified below:

- (1) President and equivalent rank.
- (2) Executive Vice President and equivalent rank.
- (3) Vice President and equivalent rank.
- (4) Head of financial segment.
- (5) Head of accounting segment.
- (6) Personnel who perform management duties and are authorized to affix signature on behalf of the Company.

Note 4: If the Directors, President, and Executive Vice Presidents received remuneration to employees (including stock and cash), fill in Table 1-2 and also this table.

Note 5: The information was obtained on December 31, 2017

Note 6: Relieved from office on January 01, 2018. Mr. Jack Chen assumed office as the President since January 01, 2018

Note 7: Relieved from office on January 25, 2018

Note 8: Relieved from office on March 01, 2018

Note 9: Fei-Fen Hsiao assumed office as the manager of the Accounting Department since March 01, 2018

5. Analysis of the remunerations to the Directors, Supervisors, President and Executive Vice Presidents in proportion to the net income over the last 2 years, and explain the policy, standard, components and the procedure of decision-making of remunerations and the association with operation performance:

- (1) The remunerations to the Directors, Supervisors, President and Executive Vice Presidents

and in proportion to net income in 2017 were NT\$11,381 thousand (2.47 %) and NT\$ 25,456 thousand (5.53 %), which indicated an increase in the proportion to net income from the same period of 2016 at NT\$ 10,584 (2.21 %), NT\$270 thousand (0.06 %), and NT\$ 15,285 thousand 3.19 %) where the net income in 2017 amounted to NT\$460,310 thousand with a decrease of NT\$19, 455 thousand from NT\$479,755 thousand in the same period of 2016.

- (2) The principles of remunerations to the Directors, Supervisors, President and Executive Vice Presidents are shown in “IV. Fund Raising : (VI). Dividend Policy and implementation, and (VIII). Percentage and scope of employee bonus and remuneration to Directors and Supervisors”. The salaries for the President and Executive Vice Presidents were determined with reference to industry standard. Bonus will be paid in commensuration with the profit status and operation performance of the Company.

### III. The pursuit of corporate governance

#### (I) The Information on the function of the Board

The Board convened in 7 sessions (A) in 2017. The attendance of the Directors is shown below:

| Occupational Title | Name (Note 1)   | Attendance (or as observer) in person (B) | Attendance by proxy | Attendance (or as observer) rate(%) [B/A] (Note 2) | Remark  |
|--------------------|---|---|---------------------|--|---|
| Chairman           | Yi Chih Co., Ltd.<br>Representative:<br>Cheng-Han Lee                         | 7   | 0                   | 100%   | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Chien Yi Industrial Co., Ltd.<br>Representative:<br>Cheng-Tsung Lee           | 6   | 1                   | 86%  | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Cheng-Tu Lee  | 7   | 0                   | 100%   | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Yi-Lung Lai   | 7   | 0                   | 100%   | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Shao-Ying Lee   | 7   | 0                   | 100%   | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Primax Development Co., Ltd.<br>Representative:<br>Chi-Chen Tu                | 7   | 0                   | 86%  | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | David Huang   | 7   | 0                   | 100%   | newly elected to office; June 24, 2016, election of a new Board             |
| Director           | Cheng-Chin Lee  | 7   | 0                   | 100%   | succession for a new term of office; June 24, 2016, election of a new Board |
| Director           | Da Feng Construction Engineering Co., Ltd.<br>Representative:<br>Chien-Yi Hsu | 7   | 0                   | 100%   | newly elected to office; election of a new Board on June 24, 2016           |

|                      |   |   |   |      |   |
|----------------------|---|---|---|------|---|
| Director             | Chien Cheng Development Co., Ltd.<br>Representative:<br>Tien-Ching Yang | 6 | 1 | 86%  | newly elected to office; election of a new Board on June 24, 2016             |
| Independent Director | Jui-Tung Lu   | 7 | 0 | 100% | newly elected to office; election of a new Board on June 24, 2016             |
| Independent Director | Ming-Chieh Chen   | 7 | 0 | 100% | succession for a new term of office; election of a new Board on June 24, 2016 |
| Independent Director | Jui-Ping Lee  | 6 | 1 | 86%  | succession for a new term of office; election of a new Board on June 24, 2016 |

Attendance of Independent Directors to the sessions of the Board in 2017◎ : in person; ☆: by proxy; \* : Absent;

| 2017            | February 24, 2017 | March 27, 2017 | April 27, 2017 | July 10, 2017 | August 28, 2017 | November 09, 2017 | December 28, 2017 |
|-----------------|-------------------|----------------|----------------|---------------|-----------------|-------------------|-------------------|
| Jui-Tung Lu     | ◎                 | ◎              | ◎              | ◎             | ◎               | ◎                 | ◎                 |
| Ming-Chieh Chen | ◎                 | ◎              | ◎              | ◎             | ◎               | ◎                 | ◎                 |
| Jui-Ping Lee    | ◎                 | ◎              | ☆              | ◎             | ◎               | ◎                 | ◎                 |

Supplementary information:

- I. If any of the following is applicable to the operation of the Board, specify the date, the series of the session, the content of the motions, the opinions of the Independent Directors, and the response of the Company to the opinions of the Independent Directors:
- (I) Particulars inscribed in Article 14-3 of the Securities and Exchange Act.
- (II) Further to the aforementioned particulars, the adverse opinions or qualified opinions of the Independent Directors on the resolutions of the Board on record or in written declaration.

| Board   | Content of the motions and subsequent actions taken                                   | Particulars inscribed in Article 14-3 of the Securities and Exchange Act | Adverse opinions or qualified opinions of the Independent Directors |
|---|---|--|---|
| The 9th session of the 19th Board August 28, 2017 | 1. Financial Statements of the Company covering the first half of 2017.               | Yes  | No  |
|   | 2. Amendment to the internal control system and internal audit system of the Company. | Yes  | No  |
|   | Opinions of Independent Directors: no.  |  |   |
|   | The response of the Company to the opinions of the Independent Directors: no.         |  |   |
|   | Resolution: the Board acted in favor of the motion as stated in common consent.       |  |   |



|   |   |     |    |
|---|---|-----|----|
| The 11th session of the 19th Board December 28, 2017                            | 1. The appointment of the new Chief Internal Auditor  | Yes | No |
|   | 2. Amendment to the internal control and internal audit system of the Company.  | Yes | No |
|   | Opinions of the Independent Directors: The new Chief Internal Auditor is advised to 1. Improve the professional knowledge pertinent to the operation for proper auditing; 2. Improve the professional knowledge in accounting and intensify the audit on working capital; 3. Strengthen the audit on general operation to reduce the possibility of government penalty. |     |    |
|   | The response of the Company to the opinions of the Independent Directors: positively respond to the opinions of the Independent Directors thereby the new Chief Internal Auditor shall more actively participate in the training of different fields of specialization as mentioned.  |     |    |
| Resolution: the Board acted in favor of the motion as stated in common consent. |   |     |    |
| The 12th session of the 19th Board February 27, 2018                            | 1. The rotation of duties and appointment of managers of the Company (including the appointment of the heads of the Administration Dept., Accounting Dept.)   | Yes | No |
|   | Opinions of Independent Directors: no.  |     |    |
|   | The response of the Company to the opinions of the Independent Directors: no.   |     |    |
|   | Resolution: the Board acted in favor of the motion as stated in common consent.   |     |    |
| The 13th session of the 19th Board March 28, 2018                               | 1. The financial statements of the Company in 2017.   | Yes | No |
|   | 2. The audit fee for Deloitte Taiwan in 2018  | Yes | No |
|   | 3. Amendment to the internal control and internal audit system of the Company.  | Yes | No |
|   | Opinions of Independent Directors: no.  |     |    |
|   | The response of the Company to the opinions of the Independent Directors: no.   |     |    |
|   | Resolution: the Board acted in favor of the motion as stated in common consent.   |     |    |

II. The recusal of the Directors from motions that involved a conflict of interest. Specify the names of the Directors, the content of the motions, and reason for recusal, and the participation in voting:

1. Director C.H. Lee and Director Cheng-Tsung Lee are Resident Directors that the motion of the change in the performance bonus is pertinent to their own personal interests. They recused from the discussion and decision of the motion. Independent Director Ming-Chieh Chen requested for the opinions of other Directors in session. The motion was passed as stated in common consent of all the other Directors in session.
2. Director Ching-Chuan Huang recused from the motion of the appointment of Ching-Chuan Huang as Director and Advisor to the Company, as this motion is

pertinent to his personal interest. The Chairman requested the opinions of other Directors in Session. The motion was passed as stated in common consent of all the other Directors in session.

3. Director Ching-Chuan Huang recused from the motion of the change in the year-end bonus for managers of the Company, as this motion is pertinent to his personal interest. The Chairman requested the opinions of other Directors in Session. The motion was passed as stated in common consent of all the other Directors in session.

III. The assessment of the objectives for the fortifying of the function of the Board (such as the establishment of the Audit Committee, and enhance the transparency of information) and the attainment: The Company has instituted the parliamentary procedure of the Board. The Directors duly follow the procedure in the sessions. The General Meeting of the Shareholders elected a new Board of Directors in 2016 with the establishment of 3 seats of Directors, and has established the Audit Committee as required by law.

The Company provided information on a better understanding of the performance of the Board to the competent authority annually, and conducted the assessment in accordance with Article 40-1 of the “Corporate Governance Best Practice Principles for the Insurance Industry” specified as follows:

- (I) Self- assessment (Only the Directors assumed office for more than 6 months in 2017 and were continued in office are entitled to conduct the assessment)

| Actual number of Director (1) | In office for more than 6 months and still assumed office (2). | Number of Directors participating in the assessment (3) | Ratio of the Directors participating in the assessment (3) / (2) | Total average scoring in the assessment (The summation of all the points scored by each Director conducting the assessment, and divided by the number of Directors under assessment). |
|-------------------------------|--|---|--|---|
| 13                            | 13   | 13  | 100%   | 96.85   |

Notes to the effect of the assessment (to be filled in by the companies participating in the assessment): Directors understand the rights and obligations through the items of self-assessment for the establishment of a viable system of corporate governance.

- (II) Assessment by peers (overall assessment) (Only the Directors that assumed office for more than 6 months in 2017 and were continued in office are entitled to conduct the assessment)

| Actual number of Director (1) | In office for more than 6 months and still in office (2). | Number of Directors participating in the assessment (3) | Ratio of the Directors participating in the assessment (3) / (2) | Total average scoring in the assessment (the summation of all the points scored by each Director conducting the assessment, and divided by the number of Directors under assessment). |
|-------------------------------|---|---|--|---|
| 13                            | 13  | 13  | 100%   | 96.47   |

Notes to the effect of the assessment (to be filled in by the companies participating in the assessment): Directors shall base on the items of assessment by peers (overall assessment) to assess the interaction with other Directors, and the expectation of the other Directors in the understanding of the functions and role of the Board.

Note 1: If the Directors or Supervisors are institutions, disclose the names of the institutions and the names of the representatives.

Note 2:

- (1) If particular Director resigned from office prior to the end of the fiscal year, specify the date of resignation

in the field provided. The attendance (or attend as observer) rate to Board session (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.

- (2) If there was an election of new Directors or Supervisors before the end of the fiscal year, fill in the information on the former and the new Directors and Supervisors, and specify if the Directors or Supervisors are newly elected to office or reelected for a second term of office, and the date of the election. The attendance (or attend as observer) rate to Board session (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.

(II) The operation of the Audit Committee or the participation of the Supervisors in the operation of the Board

1. Information on the operation of the Audit Committee:

The Audit Committee convened 9 times (A) in the most recent year. The attendance of the Independent Directors is specified as follows:

| Occupational Title   | Name            | Actual attendance (B) | Attended by proxy | Attendance rate (%) (B/A) (Note) | Remark                                |
|----------------------|-----------------|-----------------------|-------------------|----------------------------------|---------------------------------------|
| Independent Director | Jui-Tung Lu     | 9                     | 0                 | 100%                             | Newly elected to office July 07, 2016 |
| Independent Director | Ming-Chieh Chen | 9                     | 0                 | 100%                             | Newly elected to office July 07, 2016 |
| Independent Director | Jui-Ping Lee    | 9                     | 0                 | 100%                             | Newly elected to office July 07, 2016 |

Supplementary information:

- I. If any of the following is applicable to the operation of the Audit Committee, specify the date, the series of the session, the content of the motions, the resolutions of the Audit Committee and the response of the Company to the opinions of the Audit Committee.
- (I) Particulars inscribed in Article 14-5 of the Securities and Exchange Act.
- (II) Further to the aforementioned particulars, other motions not passed by the Audit Committee but at the consent of more than 2/3 of the Directors.

| Board   | Content of the motions and subsequent actions taken   | Particulars inscribed in Article 14-5 of the Securities and Exchange Act | Motions not passed by the Audit Committee but at the consent of more than 2/3 of the Directors. |
|---|---|--|---|
| The 9th session of the 19th Board August 28, 2017 | 1. Financial Statements of the Company covering the first half of 2017.   | Yes  | No  |
|   | 2. Amendment to the internal control and internal audit system of the Company.  | Yes  | No  |
|   | Resolution of the Audit Committee (August 14, 2017): All members of the Audit Committee acted in favor of the motion.     |  |   |
|   | Response of the Company to the opinions of the Audit Committee: the Board acted in favor of the motion in common consent. |  |   |

|  |   |     |    |
|--|---|-----|----|
| The 11th session of the 19th Board December 28, 2017 | 1. The appointment of the new Chief Internal Auditor  | Yes | No |
|  | 1. Amendment to the internal control and internal audit system of the Company.  | Yes | No |
|  | Resolution of the Audit Committee (December 19, 2017): All members of the Audit Committee acted in favor of the motion.                                     |     |    |
|  | Response of the Company to the opinions of the Audit Committee: the Board acted in favor of the motion in common consent.                                   |     |    |
| The 12th session of the 19th Board February 27, 2018 | 1. The rotation of duties and appointment of managers of the Company (including the appointment of the heads of the Administration Dept., Accounting Dept.) | Yes | No |
|  | Resolution of the Audit Committee (February 09, 2018): All members of the Audit Committee acted in favor of the motion.                                     |     |    |
|  | Response of the Company to the opinions of the Audit Committee: the Board acted in favor of the motion in common consent.                                   |     |    |
| The 13th session of the 19th Board March 28, 2018    | 1. The financial statements of the Company in 2017.   | Yes | No |
|  | 2. The audit fee for Deloitte Taiwan in 2018  | Yes | No |
|  | 3. The Statement of Declaration of Internal Control of the Company in 2017  | Yes | No |
|  | 4. The Statement of Declaration of Internal Control in AML/CFT of the Company in 2017   | Yes | No |
|  | 5. Amendment to the internal control and internal audit system of the Company.  | Yes | No |
|  | Resolution of the Audit Committee (March 19, 2018): All members of the Audit Committee acted in favor of the motion.  |     |    |
|  | Response of the Company to the opinions of the Audit Committee: the Board acted in favor of the motion in common consent.                                   |     |    |

- II. The recusal of the Directors from motions that involved a conflict of interest. Specify the names of the Directors, the content of the motions, and reason for recusal, and the participation in voting: no.
- III. Communications among the Independent Directors, Chief Internal Auditor, and the CPAs (in the aspects of corporate finance, business condition, and key matters for communications, the means of communications and the results).
- (I) Policy of the Communications among the Independent Directors, Chief Internal Auditor, and the CPAs.
1. The Independent Directors of the Company and the CPAs were engaged in at least 1 routine meeting since 2016. The CPAs disclosed the audit procedure report on “key audit matters” pursuant to the Statement of Auditing Standard No. 57 - Forming an Opinion and Reporting on Financial Statements. Special meeting will be called in case of significant abnormal events.
  2. The Audit Committee has appointed professional CPAs to audit the financial statements of the Company with the issuance of Auditor’s Report as reference for

the reference of the Audit Committee.

3. The Chief Internal Auditor reports to the Independent Directors from time to time on the pursuit of internal audit and internal control of the Company.

(II) Disclosures and result:

Summary of the communications between the Independent Directors and the CPAs:

| Date:           | Gravity of Communication   |
|-----------------|--|
| August 14, 2017 | <ol style="list-style-type: none"> <li>1. The CPAs disclosed the audit procedure report on “key audit matters” pursuant to the Statement of Auditing Standard No. 57 - “Forming an Opinion and Reporting on Financial Statements”, and Statement of Auditing Standard No. 62 - “Communication with Those Charged with Governance”.</li> <li>2. In supporting the requirements of the competent authority on ethical corporate management and the proper pursuit of internal control, the CPAs emphasized on the necessity of the creation of an internal control environment and the rotation system.</li> </ol> |

The Independent Directors accepted the opinions of the CPAs thereby requested the Audit Department to properly conduct the audits and any amendments to the regulations of the Company. The Compliance Department shall pronounce the systems while the Planning Department shall design the rotation system.

The action taken by the Company:

The Compliance Department has notified the compliance officers of all functional departments on matters related to compliance with applicable laws for opinions and properly pronounced any amendment to the internal control system of the Company. The Company also kicked off the design of the rotation system and the training program suggested by the Independent Directors to prevent corruption and proper pursuit of human resources development.

| Date           | Gravity of communication   |
|----------------|--|
| March 19, 2018 | <ol style="list-style-type: none"> <li>1. The CPAs disclosed the audit procedure report on “key audit matters atters” pursuant to the Statement of Auditing Standard No. 57 - “Forming an Opinion and Reporting on Financial Statements”, and Statement of Auditing Standard No. 62 - “Communication with Those Charged with Governance”.</li> </ol> |

Note:

- \* If a particular Independent Director resigned from office prior to the end of the fiscal year, specify the date of resignation in the field provided. The attendance (or attend as observer) rate to Board session (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.
  - \* If there was an election of new Independent Directors before the end of the fiscal year, fill in the information on the former and the new Directors and Supervisors, and specify if the Independent Directors are newly elected to office or reelected for a second term of office, and the date of the election. The attendance as observers to Board session (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.
2. The participation of Supervisors in the operation of the Board: Not applicable. The Company adopted the Audit Committee to substitute the function of the Supervisors.

(III) The performance of corporate governance and the variation with the Corporate Governance Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons for the variation:

| Items for assessment  | The operation (Note 1) |    |  | variation with the Corporate Governance Best Practice Principles for TWSE or TPEX Listed Companies |
|---|------------------------|----|--|--|
|   | Yes                    | No | Summary  |  |
| I. Has the Company instituted and disclosed the corporate governance best practice principles in accordance with the “Corporate Governance Best Practice Principles for TWSE or TPEX Listed Companies”? |                        | No | The Company has established its corporate governance best practice principles in accordance with the Corporate Governance Best Practice Principles for the Insurance Industry, and has reviewed clause “corresponding” to the principle in February and August every year. | No variation found. Complying with the corporate governance best practice principles.              |
| II. Equity structure and shareholders’ equity of the Company  |                        |    |  |  |
| (I) Has the Company established relevant standard operation procedures for handling suggestions, queries, disputes, and legal proceedings from the shareholders, and follow the procedures in action?   |                        | No | (I) The Company has established the Planning Department, and this department will respond to the suggestions, queries, disputes, and legal proceedings from the shareholders at once to the satisfaction of the shareholders.  | (I) Complying with the corporate governance best practice principles                               |
| (II) Has the Company keep the dominant shareholders exercising de facto control over the Company in control and the list of ultimate parties in control of these dominant shareholders?                 | Yes                    |    | (II) The Company has kept the dominant shareholders exercising de facto control over the Company in control and the list of ultimate parties in control of these dominant shareholders.  | (II) Complying with the corporate governance best practice principles                              |
| (III) Has the Company installed and executed risk control mechanisms and firewall for the control of risks between its affiliates?  |                        | No | (III) The Company does not have any affiliates, and did not install any risk control mechanism and firewall for such purpose.  | (III) The Company does not have affiliates.  |
| (IV) Has the Company instituted internal code for the prohibition of using undisclosed information by insiders in the trading of securities?  | Yes                    |    | (IV) The Company has established the operation procedure for handling essential information as an integral part of its internal control system. It is explicitly stated in the procedure that  | (IV) Complying with the corporate governance best practice principles                              |

|   |   |  |   |   |
|---|---|--|---|---|
|   |   |  | Directors, managers, and employees who access to material information of the Company due to their positions, duties or functions performed or control shall duly observe this procedure.  |   |
| <p>III. The composition and function of the Board</p> <p>(I) Has the Board mapped out a policy of diversity due to the composition of its members with proper pursuit of the policy?</p> <p>(II) Further to the establishment of the Remuneration Committee and Audit Committee as required by law, has the Company voluntarily established other functional committees?</p> <p>(III) Has the Company established regulations governing the evaluation of the performance of the Board and other means for such purpose, and has conducted routine performance evaluation annually?</p> <p>(IV) Has the Company assessed the independence of the CPAs retained as external auditors at regular intervals?</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> |  | <p>(I) The Company has designed the job functions for the Directors on the basis of their respective professional knowledge and skills and implemented accordingly.</p> <p>(II) The Company has already established the Risk Management Committee within its organizational structure.</p> <p>(III) The Company has not yet established the regulations governing the performance of the Board. However, the Company has requested the Directors to conduct self-assessment and assessment by peers of their performance by the end of March of each year.</p> <p>(IV) The Company assesses the independence of the CPAs every year and the assessment report has been passed by the Board after discussion on March 28, 2018. The standard of assessment is specified below (Note 2)</p> | <p>(I) Complying with the corporate governance best practice principles</p> <p>(II) Complying with the corporate governance best practice principles</p> <p>(III) Complying with the corporate governance best practice principles</p> <p>(IV) Complying with the corporate governance best practice principles</p> |
| <p>IV. Have the companies listed in TWSE or TPEX appointed designated full-time (part-time) body or personnel to handle matters of corporate governance (including but not limiting to supplying Directors and Supervisors the information they need in</p>   | Yes   |  | The Company has established the Corporate Governance Center on March 28, 2016, which will be responsible for matters of corporate governance. In addition, the Company has also appointed designated personnel to the center for the pursuit of corporate governance.   | Complying with the corporate governance best practice principles.   |

|  |     |  |  |  |
|--|-----|--|--|--|
| <p>performing their duties, administrative matters of the Board and the General Meeting of Shareholders as required by law, company registration and registration for changes, and keeping the minutes of meetings of the Board and the General Meeting of Shareholders)?</p>  |     |  | <p>The function of the Corporate Governance Center is shown below (Note 3):</p> <p>(I) The operation and assignments of the committees of the Company.</p> <p>(II) Handling matters of corporate governance.</p> <p>(III) Study, Improvement, and recommendation of the legal rules on corporate governance.</p> <p>(IV) Report to the Board annually on the result of corporate governance.</p> |  |
| <p>V. Has the Company established channels for communications with the stakeholders (including but not limiting to shareholders, employees, customers, and suppliers), and set up a section for stakeholders at the official website of the Company with proper response to the concerns of the stakeholders on issues related to corporate social responsibility?</p>   | Yes |  | <p>The Company has established channels for communication with the stakeholders, and has set up a stakeholder section at its official website for proper response to the concerns of the stakeholders on issues related to corporate social responsibility.</p>  | <p>Complying with the corporate governance best practice principles.</p>   |
| <p>VI. Has the Company commissioned a professional share registration and investor service institution for providing services to shareholders?</p>   | Yes |  | <p>The Company has commissioned the Share Registrar Service of Hua Nan Securities to handle share registration and transaction services.</p>   | <p>Complying with the corporate governance best practice principles</p>  |
| <p>VII. Disclosure of information</p> <p>(I) Has the Company established its official website for disclosure of information on financial performance and corporate governance?</p> <p>(II) Is there any other means for disclosures (like the installation of an English website, appointment of designated personnel to collect and disclose related information on</p> | Yes |  | <p>(I) The Company has established its official website for disclosure of information on financial performance and corporate governance.</p> <p>(II) The Company has installed an English website, appointed Planning Department to collect and disclose related information on the Company, proper performed the spokesperson system, and</p>   | <p>(I) Complying with the corporate governance best practice principles</p> <p>(II) Complying with the corporate governance best practice principles</p> |



|  |   |  |   |   |
|--|---|--|---|---|
| <p>the Company, proper performance of the spokesman system, and upload the procedure of investors conference to the website)?</p>  |   |  | <p>uploaded the procedure of investors conference to the website as required by law on December 07, 2017.</p>   |   |
| <p>VIII. Is there any further information that may help to understand the status of corporate governance of the Company better (including but not limiting to employee right, employee care, investor relation, supplier relation, stakeholder right, the continuing education of the Directors and Supervisors, risk management policy and risk assessment in action, the pursuit of customer policy, and the protection of the Directors and Supervisors with professional liability insurance)?</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> |  | <p>Essential information of the Company on corporate governance in action:</p> <p>(I) Employee right, employee care: in addition to the protection with the labor insurance and national health insurance, all employees are further protected by a group insurance policy in their daily lives. The Company has also established the “Employee Welfare Committee” for administering subsidies for the employees in matrimony, bereavement, celebration and other events, emergency relief aid and tourist travelling and group activities.</p> <p>(II) Investor relation and stakeholder rights: The Company expects to pursue stable investment policy for the proper allocation of assets for better return, and maintain profit at designated level.</p> <p>(III) Supplier relation: the Company is a property insurance firm and is engaged in the sale of various forms of insurances and related business. The only relation with suppliers is just the printing of blank forms.</p> <p>(IV) Continuing education of the Directors and Supervisors: The Chairman, some of the Directors and Independent Directors of the Company have pursued continuing education every year as required.</p> | <p>(I) Conforming to the Corporate Governance Best Practice Principles.</p> <p>(II) Conforming to the Corporate Governance Best Practice Principles.</p> <p>(III) Conforming to the Corporate Governance Best Practice Principles.</p> <p>(IV) Conforming to the Corporate Governance Best Practice Principles.</p> |

|  |     |  |  |  |
|--|-----|--|--|--|
|  | Yes |  | (V) Risk management policy and the implementation of the risk assessment standard: The Company has made its risk management policy as an integral part of its internal control and internal audit system. Respective departments have conducted quarterly review and assessment. | (V) Conforming to the Corporate Governance Best Practice Principles.   |
|  | Yes |  | (VI) The pursuit of customer policy: The Company is conceived with the notion of service in treating its customers, and has maintained positive interactions with the customers and makes the rights of the customers the top priority of concern.                               | (VI) Conforming to the Corporate Governance Best Practice Principles.  |
|  | Yes |  | (VII) The professional liability insurance for the protection of the Directors and Supervisors of the Company: The Company has not yet taken professional liability insurance for the protection of the Directors and Supervisors, and is in the process of evaluation.          | (VII) Conforming to the Corporate Governance Best Practice Principles. |
| <p>IX. Response to the corporate governance evaluation result released by the Corporate Governance Center of Taiwan Stock Exchange Corporation in the most recent year, and further effort shall be made on matters for improvement but still unaccomplished.</p> <p>The responses of the Company to the improvement suggested in the corporate governance evaluation: The nomination system and electronic voting system were adopted in the election of Directors. The Audit Committee was also established, corporate social responsibility was defined and the establishment of a designated body for performing corporate social responsibility.</p> <p>Items required further effort: continuing education of all Directors, the installation of an English website.</p> |     |  |  |  |

Note 1: Elaborate the status of operation in relevant fields whether a “Yes” or “No” was selected.

Note 2: Standard for the assessment of the independence of CPAs

| Items for assessment   | Assessment result | Meeting the standard of independence or not |
|--|-------------------|---|
| 1. Are the CPAs and the Company in direct or indirect relation in financial interest?  | No                | Yes   |
| 2. Are the CPAs Directors of the Company or in position that have significant influence on the audit work at present or in the last 2 years? | No                | Yes   |
| 3. Have the CPAs tolerated or felt the intimidation from the Company?  | No                | Yes   |
| 4. Have the CPAs provided non-auditing service to the Company that may affect the status of impartiality?                                    | No                | Yes   |
| 5. Any other violation of the Statement of Auditing Standard that may affect the status of impartiality?                                     | No                | Yes   |

Note 3: The structure of the Corporate Governance Center:

The Company has established the Corporate Governance Center directly under the Board. This Center shall administer the following:

- I. Corporate Social Responsibility Committee
- II. Outsourcing Committee
- III. Equal Treatment to Customers Committee
- IV. Ethical Corporate Management Committee

(I) Members:

1 Director-General, 1 Deputy Director-General, 1 Chief Secretary and several committee members.

(II) Authority:

1. Proposition of the mission or vision of corporate social responsibility, making of corporate social responsibility policy or related management policies.
2. Compilation, edition and circulation of the Corporate Social Responsibility Report of the Company.
3. Proper implementation of the “Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies” and related rules and regulations.

(III) Empowerment:

The Board agrees to fully empower the committee to handle everything pertinent to corporate social responsibility unless otherwise specified by law that particular issues of corporate social responsibility shall be subject to the resolution of the Board.

(IV) If there is a Remuneration Committee in place, disclose its composition, duties, and state of operation:

1. Profiles of the members of the Remuneration Committee

| Identity<br>(Note 1)    | Name               | 5 years of experience or more<br>and the following professional qualification  |   |   | Meeting the standard of independence (Note 2) |   |   |   |   |   |   |   | Number of<br>other<br>companies<br>where the<br>member is also<br>a member of<br>their<br>remuneration<br>committees | Remark |
|-------------------------|--------------------|--|---|---|---|---|---|---|---|---|---|---|--|--------|
|                         |                    | As a lecturer or<br>higher position at a<br>public or private<br>school of higher<br>education in<br>commerce, law,<br>finance and<br>banking,<br>accounting, or the<br>disciplines and<br>subject required for<br>company<br>operation. | Professional or<br>expert through<br>national<br>examinations with<br>issuance of<br>certificates such as<br>court judge, public<br>prosecutor, lawyer,<br>accountants or other<br>specialization<br>required for<br>company operation. | Work<br>experience in<br>commerce,<br>law, finance<br>and banking,<br>accounting or<br>necessary for<br>company<br>operation. | 1   | 2 | 3 | 4 | 5 | 6 | 7 | 8 |  |        |
| Independent<br>Director | Ming-Chieh<br>Chen |  |   | ✓   | ✓   | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | No   |        |
| Independent<br>Director | Jui-Ping Lee       |  |   | ✓   | ✓   | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | No   |        |
| Others                  | Chung-Mei<br>Chen  |  |   | ✓   | ✓   | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | ✓ | No   |        |

Note 1: Fill in Director, Independent Director, or others for identity.

Note 2: If any of the following is applicable to the Directors and Supervisors in the period of 2 years prior to the election to office and within the term of office, put a “✓” in the appropriate box below.

- (1) Not an employee of the Company or its affiliates.
- (2) Not a Director, Supervisor of the affiliates of the Company, except as an Independent Director of the Company or its parent company, subsidiaries which seat was established in accordance of local law or the law of the host country.
- (3) The person, spouse, dependents or a third party who is a natural person shareholder holding more than 1% of the outstanding shares of the Company or among the top 10 shareholders of the Company.
- (4) Not the spouse, kindred within the 2nd tier under the Civil Code or within the 5th tier of the consanguinity of the persons specified from (1) to (3).
- (5) Not a Director, Supervisor, or employee of an institutional shareholder in direct holding of more than 5% of the outstanding shares of the Company, or a Director, Supervisor, or employee among the top 5 institutional shareholders of the Company.

- (6) Not a Director, Supervisor, manager or shareholders holding more than 5% of the shares of particular company or institution with financial or business transactions with the Company.
- (7) Not a proprietor, partner, director, supervisor, manager and the spouse to the aforementioned persons of a professional firm, sole proprietorship, partnership, company or institution providing business, legal, financial, and accounting service or consultation services to the Company or affiliates.
- (8) None of the particulars inscribed in Article 30 of the Company Act is applicable.

2. Information on the operation of the Remuneration Committee

(1) The Remuneration Committee of the Company is consisted of 3 members.

(2) July 07, 2016 to June 23, 2019. The committee convened 6 times (A) in the most recent year. The qualification of the members and attendance is shown below:

| Occupational title | Name            | Attendance in person (B) | Attendance by proxy | Actual attendance (%) (B/A) (Note) | Remark                               |
|--------------------|-----------------|--------------------------|---------------------|------------------------------------|--------------------------------------|
| Convener           | Ming-Chieh Chen | 6                        | 0                   | 100%                               | Reelected as member on July 07, 2016 |
| Member             | Jui-Ping Lee    | 6                        | 0                   | 100%                               | Reelected as member on July 07, 2016 |
| Member             | Chung-Mei Chen  | 6                        | 0                   | 100%                               | Reelected as member on July 07, 2016 |

Supplementary information:

- I. If the Board rejected or revised the recommendation presented by the Remuneration Committee, specify the date, the series of the session, the content of the motions, the resolutions of the Board and the response of the Company to the opinions of the Remuneration Committee (like the remuneration package passed by the Board is at a higher level than the recommendation presented by the Remuneration Committee, specify the difference and the reason).  
No rejection or revision of the recommendation presented by the Remuneration Committee by the Board has ever occurred.
- II. If particular member holds adverse opinion or qualified opinion on the resolution of the Remuneration Committee on record or in written declaration, specify the date, the series of the session, the content of the motion, the opinions of all members and the responses to the opinions of the members.  
No adverse opinion or qualified opinion from the members of the Remuneration Committee has ever occurred against the resolutions of the Remuneration Committee.

Note:

- (1) If particular member of the Remuneration Committee resigned from office prior to the end of the fiscal year, specify the date of resignation in the field provided. The attendance (or attend as observer) rate to the session of the committee (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.
- (2) If there was an election of new members for the Remuneration Committee before the end of the fiscal year, fill in the information on the former and the new members, and specify if the members are newly elected to office or reelected for a second term of office, and the date of the election. The attendance rate to committee session (%) shall be calculated on the basis of the number of sessions held in such period and the actual number of presence in the sessions.

(V) Performance of corporate social responsibility:

**The performance of corporate social responsibility**

| Items for assessment   | State of operation (Note 1) |    |   | Variation with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons. |
|--|-----------------------------|----|---|---|
|  | Yes                         | No | Summary (Note 2)  |   |
| I. Proper pursuit of corporate governance  |                             |    |   |   |
| (I) Has the Company established the policy or system for corporate social responsibility and has reviewed the result of implementation?  | Yes                         |    | (I) The Company has established a Corporate Social Responsibility Committee consisting of 5 functional groups addressing to the issues of concern of the stakeholders, and keeps track on the implementation of the issues and the quality of operation (refer to p.10~13 of the CSR Report of the Company).                                      | (I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                  |
| (II) Has the Company organized training on corporate social responsibility at regular intervals?   | Yes                         |    | (II) The Company has provided training for the heads of the functional departments on corporate social responsibility (refer to p.46 of the CSR Report of the Company).   | (II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                 |
| (III) Has the Company established a designated full-time (part-time) body or position for the advocacy of corporate social responsibility administered by a senior office at the authorization of the Board, and report to the Board on the operation? | Yes                         |    | (III) The Company has established a designated body for the advocacy of corporate social responsibility administered by a senior office at the authorization of the Board. This body report to the Board at regular intervals of the performance of corporate social responsibility (refer to p.10~13 of the CSR Report of the Company) (Note 3). | (III) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                |
| (IV) Has the Company established justifiable remuneration policy and linked the performance evaluation system of the employees with the policy of corporate social responsibility, and has instituted a well-defined system for reward and punishment? | Yes                         |    | (IV) The Company has established a justifiable remuneration policy (employees and managers) with the institution of a well-defined system for reward and punishment (refer to p.53 of the CSR Report of the Company).   | (IV) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                 |

| Items for assessment  | State of operation (Note 1)      |    |   | Variation with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons.  |
|---|----------------------------------|----|---|--|
|   | Yes                              | No | Summary (Note 2)  |  |
| <p>II. Environment for sustainable development</p> <p>(I) Has the Company committed its effort to upgrade the efficient use of resources and use recycled materials causing less burden to the environment?</p> <p>(II) Has the Company instituted an environmental management system relevant with the nature of the industry?</p> <p>(III) Has the Company paid attention to the influence of climate change on its operation, and conducted inspection on greenhouse gases, mapped out the strategy for energy saving and carbon reduction, and reduction of the emission of greenhouse gases?</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> |    | <p>(I) The Company has educated its employees to classify dumps and recycling of materials, and has enhanced the efficient use of resources (refer to p.55 of the CSR Report of the Company).</p> <p>(II) The general affairs staff of the corporate HQ has requested other employees to classify resources by nature of the functional departments. The Company is not a manufacturer thereby ISO 14001 is not appropriate.</p> <p>(III) The Company has notified all that male employees are not required to wear suits and tie for work, and adjusted the temperature of the air-conditioning upward to reduce the emission of greenhouse gas.</p> | <p>(I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> <p>(II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> <p>(III) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> |



| Items for assessment  | State of operation (Note 1)                 |    |   | Variation with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons.   |
|---|---|----|---|---|
|   | Yes   | No | Summary (Note 2)  |   |
| <p>III. Social charity</p> <p>(I) Has the Company established relevant policies and procedures in management in accordance with applicable legal rules and the International Convention of Human Rights?</p> <p>(II) Has the Company established the mechanisms and channels for employee complaint and properly responded to the complaints?</p> <p>(III) Has the Company provided a safe and healthy work environment for the employees and has provided education on health and safety at regular intervals?</p> <p>(IV) Has the Company established the mechanisms for routine communication with the employees, and notified the employees any change in the operation that will cause significant impact to employees through reasonable means?</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> <p>Yes</p> |    | <p>(I) The Company has established relevant policies and procedures in management in accordance with applicable legal rules and the International Convention of Human Right (refer to p.44 of the CSR Report of the Company).</p> <p>(II) The Company has established the mechanisms and channels for employee complaint and properly responded to the complaints (refer to p.50 of the CSR Report of the Company).</p> <p>(III) The Company provided a safe and healthy work environment for the employees and has provided education on health and safety at regular intervals thereby fire safety exercise drill was held once semi-annually at the corporate HQ. In addition, the office of the corporate HQ, the branches and the Yang Ping South Road location have been equipped with the AED for first-aid (refer to p.49 of the CSR Report of the Company).</p> <p>(IV) The Company has established the mechanisms for routine communication with the employees, and notified the employees any change in the operation that will cause significant impact to employees through reasonable means (refer to p.45 of the CSR Report of the Company).</p> | <p>(I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> <p>(II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> <p>(III) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> <p>(IV) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.</p> |

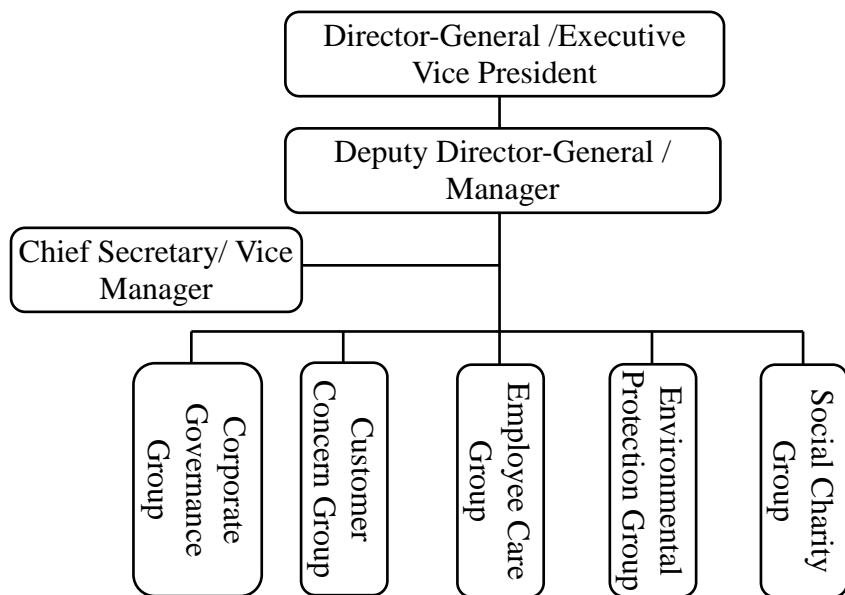
| Items for assessment  | State of operation (Note 1) |    |  | Variation with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons. |
|---|-----------------------------|----|--|---|
|   | Yes                         | No | Summary (Note 2)   |   |
| (V) Has the Company established the training program for helping employees in effective career planning?  | Yes                         |    | (V) The Company has established the personal performance and job description sheets for reviewing the career planning of each employee (refer to p.46 of the CSR Report of the Company).   | (V) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                  |
| (VI) Has the Company established the policies for the protection of consumer right in the aspects of research and development, purchase, production, operation, and service, and the procedures for customer complaints?  | Yes                         |    | (VI) The insurance products sold by the Company were approved by the competent authority. There is a special hotline for consumer complaint as stated in the insurance policy and company website (refer to p.37 of the CSR Report of the Company).                | (VI) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                 |
| (VII) Has the Company observed applicable legal rules and international standard in the marketing and labeling of products and services?  | Yes                         |    | (VII) The insurance products sold by the company are in conformity to the requirements of the competent authority (refer to p.33 of the CSR Report of the Company).  | (VII) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                |
| (VIII) Before the engagement in business transactions with the suppliers, has the Company evaluated if the suppliers have a record on impact on the environment and the society in the past?  | Yes                         |    | (VIII) Before the engagement in business transactions with the suppliers, the Company has evaluated if the suppliers have a record on impact on the environment and the society in the past.   | (VIII) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.               |
| (IX) If the contracts binding the Company and key suppliers are in defiance of the policy of corporate social responsibility of the Company and has significant impact on the environment and the society, could the Company terminate or rescind the clause of these contacts at any | Yes                         |    | (IX) The contracts binding the Company and key suppliers are not in defiance of the policy of corporate social responsibility of the Company and if there is any significant impact on the environment and the society, the Company could terminate or rescind the | (IX) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed in TWSE /TPEX.                 |

| Items for assessment  | State of operation (Note 1) |    |  | Variation with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies, and the reasons. |
|---|-----------------------------|----|--|---|
|   | Yes                         | No | Summary (Note 2)   |   |
| time?   |                             |    | clause of these contacts at any time.  |   |
| IV. Reinforcement of information disclosure<br>(I) Has the Company disclosed any relevant and reliable information on corporate social responsibility at its official website and MOPS?   | Yes                         |    | The Company disclosed any relevant and reliable information on corporate social responsibility at its official website and MOPS. | Conforming to the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies.                   |
| V. If the Company has established its own corporate social responsibility best practice principles in accordance with the “Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies”, elaborate the state of implementation and any variation thereof:<br>The Company has compiled the CSR Report in conformity to the requirements of the competent authority and announced publicly as required by law. They are congruent with the Corporate Social Responsibility Best Practice Principles for TWSE or TPEX Listed Companies.   |                             |    |  |   |
| VI. Any other essential information that may help to understand the performance of corporate social responsibility better: (The Company has disclosed any relevant and reliable information on corporate social responsibility at its official website and MOPS).<br>First, the Company is established with the idea of “take from society and give back to society”. For long time, the Company never hesitated to participate in social charity and the primary engagement at present is donation. Donation has been made in kind and cash. The summary of the social charity is specified below:<br>(I) For the effective use of Company resources, the Information Department repaired and recovered the malfunctioned computers from all departments and donated the recovered computers to AGAPE HOUSE for the drug addicts in rehabilitation to learn a skill so that they could be better prepared to go back to the workplace in the society.<br>(II) For the expression of social concern under corporate social responsibility, the Company decided to donate AED to charity organizations since 2016. The recipients in 2016 were schools in Taipei City (Xi Yuan Primary School, Nan Men Primary School, Ching Hsing Primary School, Da An Senior High School of Industry, and Yung Chun Senior High School). From 2017 onward, the recipients of donations shall be governed by the regulations of the Company with adjustment of the quantity of the items for donation as needed. |                             |    |  |   |
| VII. If the CSR Report of the Company was accredited by an external accreditation institution, specify the detail:<br>The Company has commissioned the AFNOR Group Asia to accredit the CRS Report of 2017 in accordance with the AA1000 AS (2008) standard, Category 1, and also the core items of GRI G4.   |                             |    |  |   |

Note 1: Specify in relevant fields whether a “YES” or “NO” was chosen for the answer to the state of operation or not.

Note 2: If the Company has compiled the CSR Report, specify the means for viewing and the index in lieu of the summary.

Note 3: The organizational chart of the Corporate Social Responsibility Committee and the groups



The members and function of the committee:

| Committee                                 | functional groups  | Members  | Primary function  | Operation in 2017   |
|---|--|--|---|---|
| Corporate Social Responsibility Committee | Corporate Governance Group, Customer Concern Group, Employee Care Group, Environmental Protection Group, and Social Charity Group. | Director-General: Head of the Resource Management Group<br>Deputy Director-General: Head of the Administration Dept. | Responsible for the design and execution of the plans for corporate social responsibility policy or related action plans, and report to the Board | Convened 4 times on 20170215, 20170620, 20170925, and 20171226. |

|  |  |  |           |  |
|--|--|--|-----------|--|
|  |  | Chief Secretary: Chief of Secretariat Section<br>Members: members of the business production departments | annually. |  |
|--|--|--|-----------|--|

(VI) The practice of ethical corporate management and the policies pursued:

**Proper practice of ethical corporate management**

| Items for assessment   | State of operation (Note 1) |    |   | Variation with the Ethical Corporate Management Best Practice Principles for TWSE or TPEX Listed Company and the reasons. |
|--|-----------------------------|----|---|---|
|  | Yes                         | No | Summary   |   |
| I. Establishment of the policies and action plans on business ethics   |                             |    |   |   |
| (I) Has the Company highlighted the policies and practices of ethical corporate management in its internal code and external documents, and the commitment of the Board and the management in the realization of ethical corporate management?       | Yes                         |    | (I) The Company has made its ethical corporate management policy in March 2016, and has pronounced the policies and action plans in ethical corporate management. The management reports to the Board on the implementation of the policy annually. | (I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.            |
| (II) Has the Company established action plans for the prevention of unethical practices and explicitly stated the operation procedure, ethic code of conduct, penalty on violation and complaint system in all the plans with proper implementation? | Yes                         |    | (II) The Company has established measures for the prevention of unethical practices in March 2016 with proper operation procedures, ethic code of conduct, penalty on violation and the system for filing complaints for subsequent actions.        | (II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.           |
| (III) Has the Company established measures for the prevention of unethical practices within the scope of operation that entail higher risks of unethical   | Yes                         |    | (III) The Company has established measures for the prevention of unethical practices in March 2016 including the prevention of accepting and  | (III) Conforming to Corporate Social Responsibility Best Practice Principles for  |

| Items for assessment   | State of operation (Note 1)      |    |   | Variation with the Ethical Corporate Management Best Practice Principles for TWSE or TPEX Listed Company and the reasons.  |
|--|----------------------------------|----|---|--|
|  | Yes                              | No | Summary   |  |
| business practices pursuant to Paragraph 2, Article 7 of the “Ethical Corporate Governance Best Practice Principles for Companies listed on TWSE/TPEX?”  |                                  |    | offering bribes, the offering of illegal political donations within the scope of operation that entails higher risk for unethical business practice.  | Companies Listed in TWSE /TPEX and actions for the prevention of accepting and offering bribes, the offering of illegal political donations within the scope of operation that entails higher risk for unethical business practice have also been taken.   |
| <p>II. Proper ethical corporate management</p> <p>(I) Has the Company assessed the business partners on the record of business integrity, and stated the clause of ethical corporate management in the contracts with the business partners?</p> <p>(II) Has the Company established a designated full-time (part-time) body directly under the Board for the advocacy of ethical corporate management, and report to the Board on the state of operation at regular intervals?</p> <p>(III) Has the Company made the policies for the prevention of the conflict of interest and provided appropriate channels for the proper pursuit of the avoidance of the conflict of interest?</p> | <p>Yes</p> <p>Yes</p> <p>Yes</p> |    | <p>(I) The Company has avoided the engagement in business transactions with those who have a record of unethical business practices but has not yet specified the clause of business integrity in relevant business contracts.</p> <p>(II) The Company has established a designated body for the advocacy of ethical corporate management in 2016. This body reports to the Board on the state of operation to the Board annually.</p> <p>(III) The Company has made the policy of ethical corporate management in March 2016 covering the prevention of the conflict of interest and the availability of appropriate</p> | <p>(I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p> <p>(II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p> <p>(III) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on</p> |

| Items for assessment   | State of operation (Note 1) |    |  | Variation with the Ethical Corporate Management Best Practice Principles for TWSE or TPEX Listed Company and the reasons.   |
|--|-----------------------------|----|--|---|
|  | Yes                         | No | Summary  |   |
| <p>(IV) Has the Company established viable accounting system, internal control system with the audit conducted by internal auditors for the proper pursuit of ethical corporate management, or has commissioned CPAs for the audit?</p> <p>(V) Has the Company organized internal and external training on ethical corporate management at regular intervals?</p>  | Yes                         |    | <p>channels for reporting for the proper avoidance of the conflict of interest.</p> <p>(IV) The Company has established viable accounting system, internal control system and the audit conducted by internal auditors for the proper pursuit of ethical corporate management.</p> <p>(V) The Company continued to provide internal and external training on ethical corporate management for the employees.</p> | <p>TWSE /TPEX.</p> <p>(IV) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p> <p>(V) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p>                   |
| <p>III. The functioning of the informant system</p> <p>(I) Has the Company established the system for reporting of unethical practices with actin plan and reward to the informants, and relevant channels for reporting, and also the appointment of designated personnel for handling the report and the person being reported?</p> <p>(II) Has the Company established standard operation procedure for the investigation on unethical practices being reported with proper measures for confidentiality?</p> <p>(III) Has the Company taken appropriate measures for the</p> | Yes                         |    | <p>(I) The Company has established channels for complaints and has appointed designated personnel appropriate for responding to the persons being reported.</p> <p>(II) The Company has established standard operation procedure for the investigation on unethical practices being reported with proper measures for confidentiality.</p> <p>(III) The Company has taken appropriate measures</p>               | <p>(I) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p> <p>(II) Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.</p> <p>(III) Conforming to Corporate</p> |

| Items for assessment  | State of operation (Note 1) |    |  | Variation with the Ethical Corporate Management Best Practice Principles for TWSE or TPEX Listed Company and the reasons. |
|---|-----------------------------|----|--|---|
|   | Yes                         | No | Summary  |   |
| protection of the informants from undue treatment after reporting?  |                             |    | for the protection of the informants from undue treatment after reporting.   | Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.  |
| IV. Intensification of disclosure<br>(I) Has the Company disclosed the content of its ethical corporate management best practice principles and the result of implementation at its official website and MOPS?  | Yes                         |    | The Company has established the ethical corporate management best practice principles in 2016, and has disclosed the content at its official website and MOPS with routine disclosure of the content and the result of implementation. | Conforming to Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX.                |
| V. If the Company has established its ethical corporate management best practice principles in accordance with the “Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX”.<br>The Company has established the ethical corporate management best practice principles in 2016 and has disclosed the content at its official website and MOPS. These principles are congruent with the Corporate Social Responsibility Best Practice Principles for Companies Listed on TWSE /TPEX. |                             |    |  |   |
| VI. Any other essential information that may help to under the ethical corporate management of the Company better: (such as the review and revision of the ethical corporate management best practice principles).<br>The Company has established the ethical corporate management best practice principles in 2016 with routine disclosure of the content and the result of implementation.  |                             |    |  |   |

Note 1: Specify in relevant fields whether a “YES” or “NO” was chosen for the answer to the state of operation or not.

- (VII) If the Company has established the ethical corporate management best practice principles and related regulations, disclose the means for inquiry: The Company has disclosed the content of the ethical corporate management best practice principles and the parliamentary procedure of the Board at its official website in the section of information on corporate governance for the inquiry of the shareholders.
- (VIII) Essential information that helps to under the ethical corporate government of the Company better shall also be disclosed:
1. The policy for the disclosure of the diversity of the members of the Board is in place:



According to Article 21 of the Ethical Corporate Management Best Practice Principles of the Company, the members of the Boards shall be qualified with the required knowledge, skills and education for the performance of their professed duties. The Board shall be capable of the following for achieving the goal of corporate governance:

- I. Ability in judgment of operation.
- II. Ability in accounting and financial analysis.
- III. Ability in corporate management.
- IV. Ability in risk management and knowledge.
- V. Ability in risk management.
- VI. Ability in finance and insurance.
- VII. International view of market.
- VIII. Leadership capacity.
- IX. Decision-making capacity.

2. The pursuit of the policy of diversity:

| Name of Director | Sex  | Corporate management | Leadership and decision-making | industry knowledge | finance and accounting |
|------------------|------|----------------------|--------------------------------|--------------------|------------------------|
| Cheng-Han Lee    | Male | V                    | V                              | V                  | V                      |
| Cheng-Tsung Lee  | Male | V                    | V                              | V                  |                        |
| Cheng-Tu Lee     | Male | V                    | V                              | V                  |                        |
| Yi-Lung Lai      | Male | V                    | V                              | V                  |                        |
| Shao-Ying Lee    | Male | V                    | V                              | V                  |                        |
| Chi-Chen Tu      | Male | V                    | V                              | V                  |                        |
| David Huang      | Male | V                    | V                              | V                  | V                      |
| Cheng-Chin Lee   | Male | V                    | V                              | V                  |                        |
| Chien-Yi Hsu     | Male | V                    | V                              | V                  | V                      |
| Tien-Ching Yang  | Male | V                    | V                              | V                  | V                      |
| Jui-Tung Lu      | Male | V                    | V                              | V                  | V                      |

|                 |      |   |   |   |  |
|-----------------|------|---|---|---|--|
| Ming-Chieh Chen | Male | V | V | V |  |
| Jui-Ping Lee    | Male | V | V | V |  |

(IX) The following shall be disclosed in the implementation of internal control system:

1. the Statement of Declaration of Internal Control (refer to p. 65).
2. Disclose the Auditors' Report if CPAs were commissioned for the audit of the internal control system (refer to p. 67).

# **The First Insurance Co., Ltd.**

## **Statement of Declaration of Internal Control**

We have conducted internal audit in accordance with its Internal Control Regulation covering the period from January 1 to December 31 2017, and hereby declares as follows:

- I. The company acknowledges and understands that, the establishment, enforcement and preservation of internal control system is the responsibility of the Board and the managers, and that the company has already established such system. The purpose it to reasonably ensure the effect and efficiency of operation, the reliability of financial reporting and the compliance with relevant legal rules. Operation efficiency and effective is the ultimate goal of operation, including profitability, performance and security of assets. Reliability is the objective of financial reporting while compliance will be the objective of law abiding. The compliance system constituted an integral part of the internal control system. The financial records and statements were compiled in accordance with Insurance Act and applicable rules and regulations and the basis of compilation remained congruent and exemplified the result of internal control system in financial reporting.
- II. There is limitation inherent to internal control system, no matter how perfect the design. As such, effective internal control system may only reasonably ensure the achievement of the aforementioned goals. Further, the operation environment and situation may vary, and hence the effectiveness of the internal controls system. The internal control system of the company features the self-monitoring mechanism. Once identified, any shortcoming will be corrected immediately.
- III. The company judges the effectiveness of the internal control system in design and enforcement in accordance with the “Regulations Governing the Implementation of Internal Control and Internal Audit Systems of Insurance Enterprises” and the “Criteria for the Establishment of Internal Control System of Public Offering Companies” (hereinafter referred to as “the Criteria”). The Criteria is instituted for judging the effectiveness of the design and enforcement of internal control system. There are five components of effective internal control as specified in the Criteria with which the procedure for effective internal control are composed by five elements, namely, 1. Control environment, 2. Risk Evaluation, 3. Control Operation, 4. Information and Communication, and 5. Monitoring. Each of the elements in turn contains certain audit items, and shall be referred to the Criteria for detail.
- IV. The company has adopted the aforementioned internal control system for internal audit on the effectiveness of the design and enforcement of the internal control system.
- V. Basing on the aforementioned audit findings, the company holds that has reasonably preserved the achievement of the aforementioned goals within the aforementioned period of internal control (including the monitoring over the subsidiaries), including the effectiveness and efficiency in operation, reliability in financial reporting and

compliance with relevant legal rules, and that the design and enforcement of internal control are effective.

- VI. This statement of declaration shall form an integral part of the annual report and prospectus on the company and will be announced. If there is any fraud, concealment and unlawful practice discovered in the content of the aforementioned information, the company shall be liable to legal consequences under Article 20, Article 32, Article 171 and Article 174 of the Securities and Exchanges Act or the Insurance Act.
- VII. This statement of declaration has been approved by the Board on March 28 2018.

To

Financial Supervisory Commission

Declared By: The First Insurance Co., Ltd.

Chairman: Cheng-Han Lee

(authorized signature)

President: Jen-Chieh Chen

(authorized signature)

Chief Internal Auditor: Ching-Chang Chen

(authorized signature)

Corporate HQ Chief Compliance Officer: Jen-Huai Liu (authorized signature)

March 28, 2018

# Auditor's Report on Internal Control System

To: The Board of The First Insurance Co., Ltd.

The following is the declaration of internal control system (including the declaration with the competent authority on internal control system contained in financial reporting) and compliance system (in accordance with the content of Ministry of Finance Letter Tai-Cai-Bao-Zi No. 0930014734) prepared by The First Insurance Co., Ltd. on March 28, 2018. We have audited the declarations, which was effective in design and enforcement as of December 31, 2017. The establishment and preservation of appropriate internal control system is the responsibility of the management. Our responsibility is to express an opinion on the basis of our audit findings from the aforementioned statement of declaration of internal control made by the insurance company.

We conducted our audits in accordance with Ministry of Finance Letter Tai-Cai-Bao-Zi No. 0930014734 dated March 30, 2004, Financial Supervisory Commission Letter Jin-Guan-Bao-Cai-Zi No. 10602506430 dated January 15, 2018, Letter Jin-Guan-Bao-Cai-Zi No. 10402085521 dated August 14, 2015, which require an understanding of the internal control system of the Company, an evaluation of the process of the effective enforcement of the overall internal control system by the management, examination and evaluate the effectiveness of the design and enforcement of the internal control system, and other audit procedures where we deemed necessary. We believed that our audits could serve a reasonable basis to support our opinions.

There is limitation inherent to internal control system, no matter how perfect the design. The First Insurance Co., Ltd. may not be able to prevent or detect mistakes or wrongdoings already happened with the aforementioned internal control system. Any change in the environment of the future may downgrade the level of compliance of the internal system. The effectiveness of the internal control system in current period cannot be guaranteed in the future.

In our opinions, the design and enforcement of the internal control system of The First Insurance Co., Ltd., in all material aspects, in external financial reporting (including the accuracy of the financial information declared with the competent authority under the internal control system for financial reporting) and asset security (safe from unauthorized acquisition, use, and disposition) was effective as of December 31, 2017, in conformity to the “Regulations Governing the Implementation of the Internal Control System and Internal Audit System of Insurance Industry”, and the “Criteria for the Establishment of Internal Control System by Public Companies” released by the Financial Supervisory Commission for the judgment of the effectiveness of internal control system. The design and enforcement of the internal control system (including the declaration of internal control system of financial reporting with the competent authority), and compliance system (as stated in Ministry of Finance Letter Tai-Cai-Bao-Zi No. 0930014734) as declared by The First Insurance Co., Ltd. in its statement of declaration of internal control dated March 28, 2017, in all material aspects, in external financial reporting (including the accuracy of the financial information declared with the competent authority under the internal control system for financial reporting) and asset security (safe from unauthorized acquisition, use, and disposition), was fairly presented.

Deloitte Taiwan

Yung-Fu Liu, CPA

Wan-Yee Liao, CPA

March 29, 2018

(X) Penalty of the Company and insiders by law in the most recent year to the day this report was printed, the disciplinary action taken by the Company on insiders who violated the internal control system, major defect and responses to the defects: None.

(XI) Major resolutions of the General Meeting of Shareholders and the Board in the most recent year to the day this report was printed.

| Date of session | Major resolutions of the General Meeting of Shareholders and the Board  | State of execution   |
|-----------------|---|--|
| June 28, 2017   | General Meeting of Shareholders- Financial Statements of the Company in 2016  | The motion is passed as stated. Declaration will be made with the attachment of related information with the Insurance Bureau of Financial Supervisory Commission and Taiwan Stock Exchange Corporation after presenting to the General Meeting of Shareholders. |
| June 28, 2017   | General Meeting of Shareholders- The proposal of the distribution of earnings of the Company in 2016.                 | The motion is passed as stated.  |
| June 28, 2017   | General Meeting of Shareholders- the proposal of the distribution of dividends of the Company in 2016.                | The motion is passed as stated. Cash dividend at NT\$0.65/share was paid on August 18, 2017  |
| June 28, 2017   | General Meeting of Shareholders-Amendment to the “Procedure for the Acquisition or Disposition of Assets”.            | The motion is passed as stated. The new rules will be disclosed at the official website of the Company.  |
| July 10, 2017   | The Board - regarding the Examination Bureau 106F106 Report: matters for improvement.                                 | The motion is passed as stated.  |
| July 10, 2017   | The Board - regarding the Examination Bureau 106F106 Report: matters for improvement (Table B).                       | The motion is passed as stated.  |
| July 10, 2017   | The Board - The cash dividend day of the Company in 2016 with ex-dividend day, base day and dividend payment day set. | The motion is passed as stated.  |
| August 28, 2017 | The Board - Financial Statements covering the first half of 2017.   | The motion is passed as stated with declaration with and disclosure at MOPS of Taiwan Stock Exchange Corporation.  |
| August 28, 2017 | The Board - in the matter of outsourcing for actuarial review services.   | The motion is passed as stated with reporting to the competent authority - the Insurance Bureau of Financial Supervisory Commission and approved for reference filing.   |
| August 28, 2017 | The Board - Amendment to the corporate governance best practice principles of the                                     | The motion is passed as stated.  |

|                   |   |  |
|-------------------|---|--|
|                   | Company.  |  |
| August 28, 2017   | The Board - Amendment to the parliamentary procedure of the Company.  | The motion is passed as stated and reported to the regular session of the General Meeting of Shareholders in 2018. |
| August 28, 2017   | The Board - Amendment to the regulations of the Company governing transactions with stakeholder beyond financing. | The motion is passed as stated.  |
| August 28, 2017   | The Board - Amendment to the procedure of the Company regulating transactions with stakeholder beyond financing.  | The motion is passed as stated.  |
| August 28, 2017   | The Board - amendment to the organization code of the Audit Committee of the Company.                             | The motion is passed as stated.  |
| August 28, 2017   | The Board - Amendment to the internal control system and internal audit system of the Company.                    | The motion is passed as stated.  |
| November 09, 2017 | The Board - The dismissal and appointment of the managers of the Company.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - The 2nd report on risk management in 2017.  | The motion is ratified as stated.  |
| December 28, 2017 | The Board - the business plan of the Company in 2018.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - The Compliance Plan of the Company in 2018.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - The audit plan of the Company in 2018.  | The motion is passed as stated.  |
| December 28, 2017 | The Board - the investment policy of the Company in 2018.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - Procedure for converting investment property of the Company to business use.                          | The motion is passed as stated.  |
| December 28, 2017 | The Board - amendment to the organization code of the Audit Committee of the Company.                             | The motion is passed as stated.  |
| December 28, 2017 | The Board - amendment to the accounting system of the Company.  | The motion is passed as stated.  |
| December 28, 2017 | The Board - amendment to the internal control system and internal audit system of the Company.                    | The motion is passed as stated.  |
| December 28, 2017 | The Board - appointment of Mr. Ching-Chuang Huang as a Director and Advisor of the Company.                       | The motion is passed as stated.  |
| December 28,      | The Board - appointment of the Chief  | The motion is passed as stated.  |



|                   |  |  |
|-------------------|--|--|
| 2017              | Compliance Officer of the Corporate HQ as the person charged with AML/CFT.   |  |
| December 28, 2017 | The Board - the appointment of the new Chief Internal Auditor of the Company.  | The motion is passed as stated and reported to the competent authority - declaration with the Financial Supervisory Commission.  |
| December 28, 2017 | The Board - approval of the changes in the performance bonus of the Chairman and the Resident Directors.                 | The motion is passed as stated and payment effected in January 2018.   |
| December 28, 2017 | The Board - Approval of the changes in year-end bonus for the managers of the Company.                                   | The motion is passed as stated and payment effected in January 2018.   |
| December 28, 2017 | The Board - approval of the pension for the managers of the Company.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - The salaries for the newly appointed President of the Company.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - The appointment and salaries of the managers of the Company.   | The motion is passed as stated.  |
| December 28, 2017 | The Board - the adjustment of duties assigned to the managers of the Company.  | The motion is passed as stated.  |
| February 27, 2018 | The Board - approval of the remuneration to the Directors and employees (including the managers) of the Company in 2017. | The motion is passed as stated and presented to the regular session of the General Meeting of Shareholders in 2018.  |
| February 27, 2018 | The Board - Approval of the pension for the managers of the Company.   | The motion is passed as stated.  |
| February 27, 2018 | The Board -The rotation of duties and appointment of the managers of the Company.  | The motion is passed as stated. The newly appointed Chief Compliance Officer/Person in charge of AML/CFT has been reported to the competent authority - Financial Supervisory Commission as required. The appointment of Fei-Fen Hsiao , Manager of the Accounting Department, has been declared with the Taiwan Stock Exchange Corporation as required. |
| February 27, 2018 | The Board - the salaries to the managers of the Company.   | The motion is passed as stated.  |
| February 27, 2018 | The Board - amendment to the Articles of Incorporation of the Company.   | The motion is passed as stated.  |
| March 28, 2018    | The Board - The Business Report of the Company in 2017.  | The motion is passed as stated and presented to the regular session of the General Meeting of Shareholders in  |

|                |  |  |
|----------------|--|--|
|                |  | 2018.  |
| March 28, 2018 | The Board - Financial Report in 2017   | The motion is passed as stated and presented to the regular session of the General Meeting of Shareholders in 2018 for ratification. |
| March 28, 2018 | The Board - the proposal for the distribution of earnings in 2017.   | The motion is passed as stated and presented to the regular session of the General Meeting of Shareholders in 2018 for discussion.   |
| March 28, 2018 | The Board - the proposal for distribution of earnings in 2017.   | The motion is passed as stated and presented to the regular session of the General Meeting of Shareholders in 2018 for discussion.   |
| March 28, 2018 | The Board - The assessment report on the independence of the CPAs from Deloitte Taiwan, the external auditor firm commissioned by the Company in 2017. | The motion is passed as stated.  |
| March 28, 2018 | The Board - the auditing fee charged by Deloitte Taiwan in 2018 for auditing service.  | The motion is passed as stated.  |
| March 28, 2018 | The Board - The Statement of Declaration of Internal Control in 2017   | The motion is passed as stated.  |
| March 28, 2018 | The Board - The Statement of Declaration of Internal Control in AML/CFT in 2017.   | The motion is passed as stated.  |
| March 28, 2018 | The Board - The execution of the 2017 audit plan.  | The motion is passed as stated.  |
| March 28, 2018 | The Board - announcement of the regular session of the General Meeting of Shareholders in 2018.  | The motion is passed as stated.  |
| March 28, 2018 | The Board - The appointment and salaries of the managers of the Company.   | The motion is passed as stated.  |
| March 28, 2018 | The Board - amendment to the organization code of the Corporate Governance Center in part.   | The motion is passed as stated.  |
| March 28, 2018 | The Board - amendment to the parliamentary procedure of the Board in part.   | The motion is passed as stated.  |
| March 28, 2018 | The Board - amendment to the regulations governing donations of the Company in part.   | The motion is passed as stated.  |
| March 28, 2018 | The Board - amendment to the internal control system and internal audit system of the Company.   | The motion is passed as stated.  |

(XII) Adverse opinions from the Directors or Supervisors on the resolution of the Board on record or in written declaration in the most recent year to the day this report was printed, and the summary: None.

(XIII) Resignation or dismissal of the Chairman, President, Chief Accounting Officer, Chief

Financial Officer, Chief Internal Auditor, and Chief of R&D in the most recent year to the day this report was printed in detail: None.

Note: Relevant parties shall refer to Chairman, President, Chief Accounting Officer, Chief Financial Officer, Chief Internal Auditor, and Chief of R&D.

IV. Information on auditing fees

- (I) The payment for non-auditing service to the CPA for certification service, the CPA firm and its affiliates accounted for more than 1/4 of the auditing fee: None.

(in NT\$ 1,000)

| Name of CPA firm | Name of CPA                 | Auditing fee | Non-auditing fee |                       |                 |        |          | Examination period | Remark |
|------------------|-----------------------------|--------------|------------------|-----------------------|-----------------|--------|----------|--------------------|--------|
|                  |                             |              | System design    | Business registration | Human Resources | Others | Subtotal | Examination period |        |
| Deloitte Taiwan  | Yung-Fu Liu<br>Wan-Yee Liao | 3,000        | -                | -                     | -               | -      | -        | 2017               | -      |

- (II) Replacement of the CPA firm and the auditing fee in the year of replacement was less than the auditing fee before the year of replacement: None.

- (III) The auditing fee reduced by more than 15% than the previous year: None.

(IV) Report on Independence of Certified Public Accountants

Assessment Report on Independence of CPA in 2017

The Company appointed Yung-Fu Liu, CPA, and Wan-Yee Liao, CPA, of Deloitte Taiwan for the audit and certification of the financial statements covering relevant period. As dictated by internal control, the assessment of the independence of CPA is necessary. The assessment is shown below:

- I. The Company does not have direct or indirect financial interest with Yung-Fu Liu and Wan-Yee Liao, CPAs of Deloitte Taiwan that affected their independence.
- II. Yung-Fu Liu and Wan-Yee Liao, CPAs of Deloitte Taiwan have never been a Director, Independent Directors, or any other position of the Company at present of in the last 2 years that may directly and significantly affect the audit.
- III. The Company did not defend against the stance and opinions of Yung-Fu Liu and Wan-Yee Liao, CPAs of Deloitte Taiwan that may affect their independence.
- IV. Yung-Fu Liu and Wan-Yee Liao, CPAs of Deloitte Taiwan, and their audit team has not tolerated or felt any intimidation from the Company that may cause their objectivity and professional standing in the audit.
- V. Yung-Fu Liu and Wan-Yee Liao, CPAs of Deloitte Taiwan, and their audit team did not provide any other forms of non-auditing service for the Company that may affect their impartiality.
- VI. No violation of any requirement of the SAS that may affect the impartiality of the CPAs.
- VII. The aforementioned assessment was made in accordance with the Republic of China Professional Code of Conduct of Certified Public Accountants No. 10, "Integrity, Fair, Objective, and Independence".

Assessor: Fei-Fen Hsiao

Person in charge: Y. L. Chou

- V. Information on replacement of CPA: None.
- VI. If the Chairman, President, manager in charge of finance or accounting who has been employed by the CPA firm commissioned by the Company for the audit or its affiliates, disclose the names, occupational titles, and the duration of employment with the CPA firm or its affiliates: None.
- VII. Changes in shareholding by Directors, Managers and dominant shareholders in the most recent year to the day this report was printed.

| Occupational Title (Note 1) | Name  | 2017                               |   | 2018 to April 30                   |   |
|-----------------------------|---|------------------------------------|---|------------------------------------|---|
|                             |   | Change in quantity of shareholding | Change in quantity of shares under pledge | Change in quantity of shareholding | Change in quantity of shares under pledge |
| Chairman                    | Yi Chih Co., Ltd.<br>Representative:<br>Cheng-Han Lee                         | -                                  | -   | -                                  | -   |
| Director                    | Chien Yi Industrial Co., Ltd.<br>Representative:<br>Cheng-Tsung Lee           | -                                  | -   | -                                  | -   |
| Director                    | Cheng-Tu Lee  | -                                  | -   | -                                  | -   |
| Director                    | Yi-Lung Lai   | -                                  | -   | -                                  | -   |
| Director                    | Shao-Ying Lee   | -                                  | -   | -                                  | -   |
| Director                    | Primax Development Co., Ltd.<br>Representative:<br>Chi-Chen Tu                | -                                  | -   | -                                  | -   |
| Director                    | Cheng-Chin Lee  | -                                  | -   | -                                  | -   |
| Independent Director        | Ming-Chieh Chen   | -                                  | -   | -                                  | -   |
| Independent Director        | Jui-Ping Lee  | -                                  | -   | -                                  | -   |
| Independent Director        | Jui-Tung Lu   | -                                  | -   | -                                  | -   |
| Director                    | David Huang   | -                                  | -   | -                                  | -   |
| Director                    | Chien Cheng Development Co., Ltd.<br>Representative:<br>Tien-Ching Yang       | -                                  | -   | -                                  | -   |
| Director                    | Da Feng Construction Engineering Co., Ltd.<br>Representative:<br>Chien-Yi Hsu | -                                  | -   | -                                  | -   |
| Manager                     | Jack Chen   | -                                  | -   | -                                  | -   |
| Manager                     | Ching Chang Chen  | -                                  | -   | -                                  | -   |
| Manager                     | Jen-Huai Liu  | -                                  | -   | -                                  | -   |
| Manager                     | C. S. Lin   | -                                  | -   | -                                  | -   |
| Manager                     | Y. L. Chou  | -                                  | -   | -                                  | -   |
| Manager                     | Tom C. T. Chen  | -                                  | -   | -                                  | -   |

|         |   |          |   |   |   |
|---------|---|----------|---|---|---|
| Manager | Tony T. Y. Wei<br>(relieved from office<br>on January 25, 2018) | (10,000) | - | - | - |
| Manager | Stephen S.C. Shen   | -        | - | - | - |
| Manager | Chu-Minn Leu  | -        | - | - | - |
| Manager | Emerson Chien   | -        | - | - | - |
| Manager | Jack Chu  | -        | - | - | - |
| Manager | Edward Y. C. Lee  | -        | - | - | - |
| Manager | Yeong-Rong Hsiao  | -        | - | - | - |
| Manager | Chen-Hsiung Lin   | -        | - | - | - |
| Manager | Beiru Lee   | -        | - | - | - |
| Manager | Fei-Fen Hsiao   | -        | - | - | - |
| Manager | Te-Chun Chiang  | -        | - | - | - |
| Manager | Ping-Change Chou  | -        | - | - | - |
| Manager | Chang-Hong Chen   | -        | - | - | - |
| Manager | Chien-Wen Chen  | -        | - | - | - |
| Manager | Robert Wu<br>(relieved from office<br>on March 01, 2018)        | -        | - | - | - |
| Manager | S. Q. Chen  | -        | - | - | - |
| Manager | Tony J.Y, Wang  | -        | - | - | - |
| Manager | Hsu-Wei Chen<br>Manager,  | -        | - | - | - |
| Manager | Wen-Tung Yen  | -        | - | - | - |
| Manager | H. C. Huang   | -        | - | - | - |

Note 1: Shareholders holding more than 10% of the outstanding shares issued by the Company shall be singled out as dominant shareholders.

Note 2: If the counterparty of the transfer or pledge of shares is a related party, fill in the table below.

#### Information of transfer of shares

| Name<br>(Note 1) | Reasons for<br>transfer of<br>shares (Note 2) | Date of<br>transaction | Counterparty<br>of transaction | Relation of the counterparties<br>with the Company, Directors,<br>Supervisors and shareholders<br>holding more than 10% of the<br>outstanding shares issued by<br>the Company. | Quantity<br>of shares | transacti<br>on price |
|------------------|---|------------------------|--------------------------------|--|-----------------------|-----------------------|
| —                | —   | —                      | —                              | —  | —                     | —                     |

Note 1: Fill in the names of the Directors, Supervisors, managers and shareholders holding more than 10% of the outstanding shares issued by the Company.

Note 2: Fill in whether is it an acquisition or disposition.

#### Information on pledge of shares

| Name<br>(Note 1) | Reason for<br>the pledge<br>(Note 2) | Date of<br>change | Counterparties | Relation of the<br>counterparties with the<br>Company, Directors,<br>Supervisors and<br>shareholders holding<br>more than 10% of the<br>outstanding shares<br>issued by the Company. | Quantity<br>of shares | Proportion of<br>shareholding | Shares under pledge<br>in proportion to<br>shareholding. | Under<br>lien<br>(Redemp-<br>tion)<br>amount: |
|------------------|--------------------------------------|-------------------|----------------|--|-----------------------|-------------------------------|--|---|
| —                | —                                    | —                 | —              | —  | —                     | —                             | —  | —   |

Note 1: Fill in the names of the Directors, Supervisors, managers and shareholders holding more than 10% of the outstanding shares issued by the Company.

Note 2: Fill in whether it is a pledge or redemption.

#### VIII. Information on the relations among the top 10 shareholders of the Company by quantity of shareholding.

| Name<br>(Note 1)                                    | The person<br>Shareholding  |                               | Shareholding by spouse<br>or dependents |                               | Shareholding<br>under the<br>title of a third<br>party |                               | If the top 10<br>shareholders are<br>related parties, or<br>spouses, kindred<br>within the 2nd tier<br>under the Civil<br>Code, the titles or<br>names and relations.<br>(Note 3) |  | Remark |
|---|-----------------------------|-------------------------------|---|-------------------------------|--|-------------------------------|---|--|--------|
|   | Quantity of<br>shareholding | Proportion of<br>shareholding | Quantity of<br>shareholding             | Proportion of<br>shareholding | Quantity of<br>shareholding                            | Proportion of<br>shareholding | Title<br>(or name)  | Relation   |        |
| Chien Cheng<br>Development<br>Co., Ltd.             | 18,806,192                  | 6.24%                         | -                                       | -                             | -  | -                             | Chien Yi<br>Industrial<br>Co., Ltd.   | With the<br>same<br>Chairman                             |        |
| Deputy<br>Agent:<br>Cheng-Tsung<br>Lee              | 1,329,102                   | 0.44%                         | 183,647                                 | 0.06%                         | -  | -                             | Cheng-Tu<br>Lee<br>Pei-Chuen<br>Lee   | Brothers<br>Elder<br>brother<br>and<br>younger<br>sister |        |
| Da Feng<br>Construction<br>Engineering<br>Co., Ltd. | 15,823,085                  | 5.25%                         | -                                       | -                             | -  | -                             | Tsai Cheng<br>Enterprise<br>Co., Ltd.   | With the<br>same<br>Chairman                             |        |
| Deputy<br>Agent:<br>Cheng-Tu<br>Lee                 | 3,296,991                   | 1.09%                         | 606,203                                 | 0.20%                         | -  | -                             | Cheng-Tsung<br>Lee<br>Pei-Chuen<br>Lee  | Brothers<br>Elder<br>sister and<br>younger<br>brother    |        |
| Sheng Ching<br>Investment<br>Co., Ltd.              | 13,829,289                  | 4.59%                         | -                                       | -                             | -  | -                             | -   | -  |        |
| Deputy<br>Agent:<br>Shu-Huei                        | -                           | -                             | -                                       | -                             | -  | -                             | -   | -  |        |

|                                   |            |       |           |       |   |   |  |   |  |
|-----------------------------------|------------|-------|-----------|-------|---|---|--|---|--|
| Huang                             |            |       |           |       |   |   |  |   |  |
| Tsai Cheng Enterprise Co., Ltd.   | 11,137,501 | 3.70% | -         | -     | - | - | Da Feng Construction Engineering Co., Ltd. | With the same Chairman  |  |
| Deputy Agent: Cheng-Tu Lee        | 3,296,991  | 1.09% | 606,203   | 0.20% | - | - | Cheng-Tsung Lee<br>Pei-Chuen Lee           | Brothers Elder sister and younger brother                         |  |
| Bao Shan Construction Co., Ltd.   | 9,969,950  | 3.31% | -         | -     | - | - | -  | -   |  |
| Deputy Agent: Cheng-Chin Lee      | 347,000    | 0.12% | 190,000   | 0.06% | - | - | -  | -   |  |
| Chien Yi Industrial Co., Ltd.     | 7,335,189  | 2.44% | -         | -     | - | - | Chien Cheng Development Co., Ltd.          | With the same Chairman  |  |
| Deputy Agent: Cheng-Tsung Lee     | 1,329,102  | 0.44% | 183,647   | 0.06% | - | - | Cheng-Tu Lee<br>Pei-Chuen Lee              | Brothers Elder brother and younger sister                         |  |
| Yi Chih Co., Ltd.                 | 4,928,750  | 1.64% | -         | -     | - | - | -  | -   |  |
| Deputy Agent: Hsiu-Chuen Lee-Yang | 3,719,751  | 1.24% | 1,699,367 | 0.56% | - | - | Hsiu-Chuen Lee-Yang                        | The same person   |  |
| Tsai Rai Enterprise Co., Ltd.     | 4,498,464  | 1.49% | -         | -     | - | - | -  | -   |  |
| Deputy Agent: Pei-Chuen Lee       | 1,139,000  | 0.38% | -         | -     | - | - | Cheng-Tsung Lee<br>Cheng-Tu Lee            | Elder brother and younger sister Elder sister and younger brother |  |
| Tai An Insurance Co., Ltd.        | 3,930,000  | 1.30% | -         | -     | - | - | -  | -   |  |
| Deputy Agent: Sung-Chih Lee       | -          | -     | -         | -     | - | - | -  | -   |  |
| Hsiu-Chuen Lee-Yang               | 3,719,751  | 1.24% | -         | -     | - | - | Yi Chih Co., Ltd.                          | With the same chairman  |  |

Note 1: List out the top 10 shareholders. List both the titles of the shareholders and the names of the representatives



for institutional shareholders.

Note 2: The calculation of proportion of shareholding shall be the holding by the person, spouse, and dependents or in the name of a third party separately.

Note 3: The aforementioned shareholders for disclosure shall include institutional shareholders and natural persons, with the relations between the shareholders as required by the Criteria for the Compilation of Financial Statements by Securities Issuers.

IX. The quantity of shares of the same investee held by the business under direct or indirect control of the Company, the Directors, Supervisors, managers of the Company, and shall be included in the overall proportion in shareholding.

Unit: Share; %

| Direct investment (Note) | Investment of the Company |                            | Investment of the Directors, Supervisors, managers and business under direct or indirect control. |                            | Comprehensive investment |                            |
|--------------------------|---------------------------|----------------------------|---|----------------------------|--------------------------|----------------------------|
|                          | Quantity of shareholding  | Proportion of shareholding | Quantity of shareholding  | Proportion of shareholding | Quantity of shareholding | Proportion of shareholding |
| —                        | —                         | —                          | —   | —                          | —                        | —                          |

Note: Long-term investment of the Company accounted for under the equity method.

## Four. Funding Status

### I. Source of capital

| Year / month | Issue price (NTD) | Authorized capital                 |                        | Paid-up capital                    |                        | Remarks  |                                    |   |
|--------------|-------------------|------------------------------------|------------------------|------------------------------------|------------------------|--|------------------------------------|---|
|              |                   | Number of shares (thousand shares) | Amount (NTD thousands) | Number of shares (thousand shares) | Amount (NTD thousands) | Source of capital (NTD thousands)  | Paid in properties other than cash | Others  |
| 1993.10      | 10                | 40,500                             | 405,000                | 40,500                             | 405,000                | Capitalization of retained earnings 27,720<br>Cash issue 69,280  | None                               | Approved under Letter No. (82)-Tai-Cai-Zheng-(1)-30551 dated October 02, 1993 |
| 1994.07      | 10                | 49,005                             | 490,050                | 49,005                             | 490,050                | Capitalization of retained earnings 76,950<br>Capitalization of special reserves 8,100   | None                               | Approved under Letter No. (83)-Tai-Cai-Zheng-(1)-32388 dated July 22, 1994    |
| 1995.07      | 10                | 61,000                             | 610,000                | 61,000                             | 610,000                | Cash issue 119,950   | None                               | Approved under Letter No. (84)-Tai-Cai-Zheng-(1)-38516 dated July 05, 1995    |
| 1996.07      | 10                | 76,000                             | 760,000                | 76,000                             | 760,000                | Cash issue 137,800<br>Capitalization of capital reserves 6,100<br>Capitalization of special reserves 6,100   | None                               | Approved under Letter No. (85)-Tai-Cai-Zheng-(1)-41412 dated July 09, 1996    |
| 1997.07      | 10                | 94,000                             | 940,000                | 94,000                             | 940,000                | Cash issue 96,400<br>Capitalization of retained earnings 76,000<br>Capitalization of special reserves 7,600  | None                               | Approved under Letter No. (86)-Tai-Cai-Zheng-(1)-52271 dated July 07, 1997    |
| 1998.07      | 10                | 115,000                            | 1,150,000              | 115,000                            | 1,150,000              | Cash issue 97,200<br>Capitalization of retained earnings 103,400<br>Capitalization of special reserves 4,700<br>Capitalization of capital reserves 4,700 | None                               | Approved under Letter No. (87)-Tai-Cai-Zheng-(1)-59513 dated July 14, 1998    |
| 1999.07      | 10                | 140,000                            | 1,400,000              | 140,000                            | 1,400,000              | Cash issue 169,500<br>Capitalization of retained earnings 69,000<br>Capitalization of special reserves 5,750   | None                               | Approved under Letter No. (88)-Tai-Cai-Zheng-(1)-62487 dated July 07, 1999    |

|         |    |         |           |         |           |   |      |  |
|---------|----|---------|-----------|---------|-----------|---|------|--|
|         |    |         |           |         |           | Capitalization of capital reserves<br>5,750                   |      |  |
| 2000.8  | 10 | 170,000 | 1,700,000 | 170,000 | 1,700,000 | Cash issue<br>206,200<br>Capitalization of earnings<br>93,800 | None | Approved under Letter No. (89)-Tai-Cai-Zheng-(1)-56269 dated June 29, 2000       |
| 2001.07 | 10 | 200,000 | 2,000,000 | 200,000 | 2,000,000 | Cash issue<br>204,000<br>Capitalization of earnings<br>96,000 | None | Approved under Letter No. (90)-Tai-Cai-Zheng-(1)-141707 dated July 06, 2001      |
| 2003.06 | 10 | 210,230 | 2,102,300 | 210,230 | 2,102,300 | Capitalization of retained earnings<br>102,300                | None | Approved under Letter No. (92)-Tai-Cai-Zheng-(1)-092012 8642 dated June 30, 2003 |
| 2004.07 | 10 | 234,977 | 2,349,776 | 234,977 | 2,349,776 | Capitalization of retained earnings<br>247,476                | None | Approved under Letter No. (93)-Zheng-Qi-(1)-0930129931 dated July 07, 2004       |
| 2005.07 | 10 | 258,075 | 2,580,753 | 258,075 | 2,580,753 | Capitalization of earnings<br>230,977                         | None | Letter No. Jin-Guan-Zheng-1-0940124 581 dated June 27, 2005                      |
| 2007.07 | 10 | 282,782 | 2,827,828 | 282,782 | 2,827,828 | Capitalization of earnings<br>257,075                         | None | Letter No. Jin-Guan-Zheng-1-0960034 642 dated July 13, 2007                      |
| 2008.07 | 10 | 301,163 | 3,011,637 | 301,163 | 3,011,637 | Capitalization of earnings<br>183,808                         | None | Letter No. Jin-Guan-Zheng-1-0970032 127 dated 07.04, 2008                        |

Note 1: Information is presented up till the publication date of this annual report.

Note 2: Date and document reference of effected (approved) incremental capital have been presented.

Note 3: Shares issued at prices lower than face value have been labeled in a visible manner.

Note 4: In-kind capital payments such as monetary debt and technology are described separately with details on the types and amounts of contribution provided.

Note 5: Private placements have been highlighted in a visible manner.

April 30, 2018

| Share category | Authorized capital        |                 |                    | Remarks     |
|----------------|---------------------------|-----------------|--------------------|-------------|
|                | Outstanding shares (Note) | Unissued shares | Total              |             |
| Common shares  | 301,163,784 shares        | 0               | 301,163,784 shares | TWSE-listed |

Note: The place of listing (i.e. TWSE or TPEX) along with any listing restrictions have been specified.

#### Information relevant to the aggregate reporting policy

| Type of securities | Planned amount of issuance | Issued quantity | Purpose and expected | Unissued portion | Remarks |
|--------------------|----------------------------|-----------------|----------------------|------------------|---------|
|--------------------|----------------------------|-----------------|----------------------|------------------|---------|

|   | Total shares | Amount approved | Number of shares | Price | benefits of issued securities | Scheduled date of issuance |   |
|---|--------------|-----------------|------------------|-------|-------------------------------|----------------------------|---|
| — | —            | —               | —                | —     | —                             | —                          | — |

II. Shareholder structure

April 30, 2018

| Shareholder structure<br>Count | Government agencies | Financial institutions | Others Corporate entities | Natural persons | Foreign institutions and foreigners | Total       |
|--------------------------------|---------------------|------------------------|---------------------------|-----------------|-------------------------------------|-------------|
| Count                          | 1                   | 2                      | 76                        | 20,817          | 63                                  | 20,959      |
| Shares held (shares)           | 292,000             | 3,981,000              | 113,315,068               | 169,606,739     | 13,968,977                          | 301,163,784 |
| Shareholding percentage (%)    | 0.10%               | 1.32%                  | 37.63%                    | 56.32%          | 4.63%                               | 100%        |

Note: All TWSE/TPEX/Emerging Stock Market companies listing for the first time are required to disclose Chinese investors' holding interests. A Chinese investor refers to an individual, corporation, organization, or institution of Mainland origin, or any company owned by the above party in a foreign location, as defined in Article 3 of Regulation Governing Mainland Residents' Investment in Taiwan.

III. Diversity of ownership

April 30, 2018

| Shareholding range   | Number of shareholders | Shares held | Shareholding percentage |
|--|------------------------|-------------|-------------------------|
| 1 to 999   | 13,792                 | 601,474     | 0.20%                   |
| 1,000 to 5,000   | 4,156                  | 9,634,216   | 3.20%                   |
| 5,001 to 10,000  | 1,123                  | 9,131,670   | 3.03%                   |
| 10,001 to 15,000   | 443                    | 5,664,307   | 1.88%                   |
| 15,001 to 20,000   | 311                    | 5,752,953   | 1.91%                   |
| 20,001 to 30,000   | 269                    | 6,843,764   | 2.27%                   |
| 30,001 to 40,000   | 167                    | 5,956,022   | 1.98%                   |
| 40,001 to 50,000   | 119                    | 5,556,931   | 1.85%                   |
| 50,001 to 100,000  | 239                    | 16,939,265  | 5.62%                   |
| 100,001 to 200,000   | 164                    | 23,478,582  | 7.80%                   |
| 200,001 to 400,000   | 83                     | 23,475,526  | 7.79%                   |
| 400,001 to 600,000   | 23                     | 11,460,360  | 3.81%                   |
| 600,001 to 800,000   | 20                     | 13,419,996  | 4.46%                   |
| 800,001 to 1,000,000   | 6                      | 5,243,378   | 1.74%                   |
| 1,000,001 and above - Range to be determined as deemed appropriate | 44                     | 158,005,340 | 52.46%                  |
| Total  |                        | 301,163,784 | 100.00%                 |

Preferred shares

April 30, 2018

| Shareholding range                           | Number of shareholders | Shares held | Shareholding percentage |
|--|------------------------|-------------|-------------------------|
| Range to be determined as deemed appropriate | —                      | —           | —                       |
| Total  | —                      | —           | —                       |

## IV. List of major shareholders:

April 30, 2018

| Shareholding<br>List of major shareholders | Shares held | Shareholding percentage % |
|--|-------------|---------------------------|
| Chien Cheng Development Co., Ltd.          | 18,806,192  | 6.24%                     |
| Sheng Ching Investment Co., Ltd.           | 17,158,289  | 5.70%                     |
| OSTA Trading Co., Ltd.                     | 15,823,085  | 5.25%                     |
| Tsai Cheng Enterprise Co., Ltd.            | 11,137,501  | 3.70%                     |
| Pao Shan Construction Co., Ltd.            | 9,969,950   | 3.31%                     |
| Chien Yi Industrial Co., Ltd.              | 7,335,189   | 2.44%                     |
| Yi Chih Co., Ltd.                          | 4,928,750   | 1.64%                     |
| Tsai Rui Enterprise Co., Ltd.              | 4,498,464   | 1.49%                     |
| Taian Insurance Co. Ltd.                   | 3,980,000   | 1.32%                     |
| Hsiu-Chuan Li Yang                         | 3,719,751   | 1.24%                     |

## V. Information relating to market price, net worth, earnings, and dividends per share for the last 2 years

| Item                            |   | Year                  | 2016    | 2017    | Year-to-date<br>March 31,<br>2018 |
|---------------------------------|---|-----------------------|---------|---------|-----------------------------------|
| Market price per share (Note 1) | High  |                       | 14.95   | 15.10   | 14.70                             |
|                                 | Low   |                       | 9.99    | 12.80   | 13.45                             |
|                                 | Average                                     |                       | 11.68   | 13.72   | 14.20                             |
| Net worth per share (Note 2)    | Before dividend                             |                       | 17.84   | 18.92   | 19.24                             |
|                                 | After dividend                              |                       | 17.19   | Note 8  | -                                 |
| Earnings per share              | Weighted average outstanding shares         |                       | 301,164 | 301,164 | 301,164                           |
|                                 | EPS (Note 3)                                |                       | 1.59    | 1.53    | 0.47                              |
| Dividends per share             | Cash dividends                              |                       | 0.65    | Note 8  | -                                 |
|                                 | Stock dividends                             | From earnings         | -       | -       | -                                 |
|                                 |   | From capital reserves | -       | -       | -                                 |
|                                 | Cumulative undistributed dividends (Note 4) |                       | -       | -       | -                                 |
| Analysis of investment returns  | P/E ratio (Note 5)                          |                       | 7.35    | 8.97    | -                                 |
|                                 | Price to dividends ratio (Note 6)           |                       | 17.97   | Note 8  | -                                 |
|                                 | Cash dividend yield (Note 7)                |                       | 5.57    | Note 8  | -                                 |

\* Where stock dividends were paid from earnings or capital reserves, market price and cash dividends per share are adjusted retrospectively for the number of new shares issued.

Note 1: The table shows the highest and lowest market price of common shares in each year; average market price is calculated by weighing transacted prices against transacted volumes in the respective years.

Note 2: Calculated based on the number of outstanding shares at year-end; amount of distribution resolved in next year's

shareholders meeting is presented in the table.

Note 3: Where stock dividends were issued, EPS are disclosed in amounts before and after retrospective adjustments.

Note 4: If equity securities are issued with terms that allow dividends to be accrued and accumulated until the year the Company makes profit, the amount of cumulative undistributed dividends up till the current year is disclosed separately.

Note 5: P/E ratio = average closing price per share for the year / earnings per share.

Note 6: Price to dividends ratio = average closing price per share for the year / cash dividends per share.

Note 7: Cash dividend yield = cash dividends per share / average closing price per share for the current year.

Note 8: Dividends per share are specified in the amounts resolved during next year's shareholder meeting ; the 2017 amounts are yet to be resolved during a shareholder meeting.

#### VI. Dividend policy and execution:

(I) The Company's dividend decisions involve several factors including the current business environment and growth stage, its future capital requirements and long-term financial plan, and shareholders' needs for cash flow. At least 30% of distributable earnings shall be distributed as dividends, with cash dividends amounting to no lesser than 10% of total dividends.

(II) Dividend distribution proposed for the next shareholder meeting:

During the board of directors meeting dated March 28, 2018, the board resolved to pay out NT\$180,698,270 from cumulative undistributed earnings as cash dividends. Based on the 301,163,784 shares outstanding, the payout is equivalent to NT\$0.60 per share.

The board of directors shall be authorized to determine details relating to the dividend, including the baseline date, once the proposal has been resolved in the annual general meeting.

#### VII. Impacts of proposed stock dividends on the Company's business performance and earnings per share: None

#### VIII. Percentage and scope of employee/director/supervisor remuneration:

(I) Pursuant to Article 31 of the Articles of Incorporation:

Annual profits concluded by the Company are subject to employee remuneration of at least 1%, which the board of directors may decide to distribute in cash or in shares.

Employees who meet certain criteria are entitled to receive remuneration. Up to 0.6% of the aforementioned profit may be distributed as directors' remuneration at the discretion of the board of directors. Employee and director remuneration proposals are to be raised for resolution during shareholder meetings.

Profits must first be taken to offset against cumulative losses, if any, before the remainder can be distributed as employee/director remuneration in the above percentages.

(II) Allocation of employee and director remuneration from previous year's earnings:

Employee remuneration: NT\$5,202,000 and director remuneration: NT\$3,121,000.

#### IX. Shares repurchased by the company:

Up till April 30, 2018

| Buyback attempt (Note) | First (attempt)                     | Second (attempt)                 | Third (attempt)                   | Fourth (attempt)                     | Fifth (attempt)                      | Six (attempt)                        |
|------------------------|-------------------------------------|----------------------------------|-----------------------------------|--------------------------------------|--------------------------------------|--------------------------------------|
| Purpose of buyback     | Transfer to employees               | Transfer to employees            | Transfer to employees             | Transfer to employees                | Transfer to employees                | Transfer to employees                |
| Buyback period         | January 29, 2001~<br>March 28, 2001 | April 02, 2001~<br>June 01, 2001 | June 11, 2001~<br>August 10, 2001 | August 07, 2001~<br>October 06, 2001 | August 28, 2003~<br>October 27, 2003 | February 18, 2004~<br>April 17, 2004 |
| Buyback price range    | 8~12                                | 10~12                            | 9~12                              | 8.5~10.5                             | 8~12                                 | 17~23                                |
| Types and number of    | Common shares<br>6,000,000          | Common shares<br>2,000,000       | Common shares<br>2,000,000        | Common shares<br>4,000,000           | Common shares<br>3,000,000           | Common shares<br>1,000,000           |

|  |            |            |            |            |            |            |
|--|------------|------------|------------|------------|------------|------------|
| shares bought back   |            |            |            |            |            |            |
| Value of shares bought back  | 64,619,006 | 19,310,673 | 20,533,572 | 38,038,310 | 30,769,227 | 22,221,815 |
| Number of shares retired and transferred   | 6,000,000  | 2,000,000  | 2,000,000  | 4,000,000  | 3,000,000  | 1,000,000  |
| Cumulative holding of own shares   | 0          | 0          | 0          | 0          | 0          | 0          |
| Cumulative holding of own shares as a percentage to total outstanding shares (%) | 0%         | 0%         | 0%         | 0%         | 0%         | 0%         |

Note: Adjust the number of columns as needed.

X. Corporate bonds (including convertible bonds, exchangeable bonds, bonds issued under shelf registration, and corporate bonds with embedded options): None.

XI. Preferred shares (including preferred shares with embedded options): None.

XII. Global depository receipts: None.

XIII.

(I) Employee warrants (including the names of managers receiving employee warrant, names of employees ranking top ten in terms of exercisable shares, amount acquired and amount exercised): None.

(II) Employee restricted shares (including the names of managers receiving employee restricted shares, names of employees ranking top ten in restricted shares acquired, and total amount acquired): None.

XIV. New shares issued for merger or acquisition: None.

XV. Progress on planned use of capital:

(I) Projects: For any issuance or private placement of securities that were not completed or issuance/private placements that were completed but have yet to achieve the intended benefits by the quarter before the publication date of annual report, disclose details of the securities offerings or private placements including plan changes, source and use of capital, reasons for change, benefits of change, the dates the proposals were presented during shareholder meeting, and the dates information was uploaded onto the reporting website designated by the Commission: None.

(II) Execution: Analyze each of the above projects up till the quarter before the publication date of annual report, and compare execution with expected benefits. For any project that does not meet the targeted progress or benefit, state the underlying reasons, how it affects shareholder equity, and improvement plans. Projects that involve any of the following must also disclose the details below:

1. Where capital is intended to acquire another company, expand or construct new property, plant or equipment, compare and explain the underlying effects in terms of fixed asset balance, operating revenues, operating costs, operating profits etc: Not applicable.



2. Where capital is intended to invest into another company, explain impacts to the operations of the invested business and to the company's investment gains: Not applicable.
3. Where capital is intended to provide working capital or repay debts, compare and explain any increase/decrease in current assets, current liabilities, total liabilities, interest expense, operating revenues and earnings per share, and analyze the financial structure:

In 2007, the Company capitalized NT\$183,808,000 of earnings and increased the size of share capital to allow greater room for treasury transactions, which will prove beneficial to earnings results in subsequent years.

## Five. Operational Overview

### I. Business activities

#### (I) Scope of business:

##### 1. Main business activities:

The Company is a non-life insurance business that specializes in the offering of insurance products and related services. Below is a list of the Company's current main products and services:

- (1) Fire: A. Fire insurance, B. Fire & Allied Perils Insurance, C. Residential Fire and Earthquake Insurance
- (2) Marine: A. Marine Cargo Insurance, B. Marine Hull Insurance, C. Fishing Vessel Insurance, D. Carrier's Liability Insurance
- (3) Motor: A. Automobile Hull Insurance, B. Automobile Theft Insurance, C. Automobile Third Party Insurance, D. Automobile Insurance Rider, E. Compulsory Automobile Liability Insurance, F. Compulsory Motorcycle Liability Insurance, G. Compulsory Automobile/Motorcycle Liability Insurance Driver's Injury Rider
- (4) Machinery and Engineering: A. Erection All Risks Insurance, B. Installation All Risks Insurance, C. Electronic Equipment Insurance, D. Contractors' Plant & Machinery Insurance, E. Boiler & Pressure Vessel Insurance, F. Machinery Breakdown Insurance, G. Construction Bond Insurance, H. Civil Engineering Completed Risks Insurance
- (5) Liability: A. Public Liability Insurance, B. Elevator Liability Insurance, C. Contractors' Liability Insurance, D. Employers' Liability Insurance, E. Product Liability Insurance, F. Golfers' Liability Insurance, G. Security Liability Insurance, H. Public Transportation Liability Insurance, I. Professional Indemnity for Architects & Engineers, J. Professional Indemnity for Accountants, K. Professional Indemnity for Lawyers, L. Financial Industry Safety Deposit Box Liability Insurance, M. Medical Malpractice Insurance, N. Hospital Comprehensive Liability Insurance, O. Professional Indemnity for Insurance Agents/Brokers, P. Professional Indemnity for Travel Agencies, Q. Human Clinical Trial Insurance, R. Golfers All Risk Insurance, S. Directors & Officers Liability Insurance
- (6) Performance Bond Insurance: A. Blanket Fidelity Bond Insurance, B. Insurance Brokers' Blanket Bond Insurance
- (7) Credit: A. Small Loan Credit Insurance
- (8) Aviation Insurance
- (9) Others: A. Money Insurance, B. Burglary & Theft Insurance, C. Bankers' All Risk Insurance, D. Commercial Property Floater Insurance, E. Artwork Comprehensive Insurance, F. Shop Insurance
- (10) Personal Accident: A. Personal Accident Insurance, B. Group Accident Insurance, C. Comprehensive Personal Travel Insurance, D. Women's Comprehensive Insurance, E. Credit Card Comprehensive Insurance
- (11) Health Insurance: A. Daily Hospitalization Insurance, B. Hospitalization Rider, C. Critical Illness Insurance, D. Daily Hospitalization Rider, E. Travel

Insurance Overseas Illness Benefit Rider, F. Daily Hospitalization Rider [Type A], G. First-time Cancer Diagnosis Rider, H. First-time Cancer Insurance

(12) Reinsurance: Reinsurance of various non-life risks

(13) Damage Prevention Services: A. Infrared Thermal Imaging, B. Ultraviolet (UV) Imaging, C. Fire Safety Seminar and Certification, D. Fire Safety Design and Advice for New Buildings/Plants, E. Quantitative Fire Risk Assessment and Improvement Advice

2. Revenue weight of main products:

2017 Premiums Revenues by Insurance Category (in NT\$ 1,000)

| Insurance category  | Fire    | Marine  | Automobile | Others    | Total     |
|---------------------|---------|---------|------------|-----------|-----------|
| Premium revenues    | 887,156 | 379,369 | 4,317,972  | 1,415,288 | 6,999,785 |
| Reinsurance Premium | 41,795  | 25,563  | 241,597    | 71,471    | 380,426   |
| Total               | 928,951 | 404,932 | 4,559,569  | 1,486,759 | 7,380,211 |

(II) Industry overview:

1. Euler Hermes SA (Belgium) established its Taiwan Branch, making it the first foreign insurance institution to create a branch in Taiwan in recent years.
2. The Financial Supervisory Commission plans to revise its “Compulsory Automobile Liability Insurance Premium Increment Standards for Drinking and Driving” to increase the amount of premiums for drink-and-drive offenders, so that the cost of claims against compulsory automobile liability insurance in the event of drink-and-drive can be more reasonably reflected.
3. The government and the general public have become increasingly aware of issues concerning personal data protection and information security, particularly after recent hacker and ransomware attacks on banking systems. Protection against information security risks has emerged as the latest insurance trend.
4. The Financial Supervisory Commission continues to encourage innovation from the insurance industry and motivate industry participants in making more efficient use of capital and exploring new business opportunities. Meanwhile, additional supervisory efforts are being undertaken to enhance compliance with anti-money laundering laws and internal control for the sound development of the insurance industry.
5. On June 1, 2017, Taiwan Insurance Institute published its reference premium rates for large-sum insurance, which prevents large-sum fire insurance coverage from being charged at unreasonable levels, and is expected to put an end to the intensive price competition that has existed for many years.
6. Abnormal climates in recent years have increased the frequency and extent of agricultural losses. To protect farmers, the Financial Supervisory Commission has been assisting the Council of Agriculture, Executive Yuan, in organizing trial launch of natural disaster insurance coverage for agricultural products. Currently, agricultural insurance covers several categories including pear, mango, rice and aquaculture.

7. Premiums from online insurance still account for a low percentage of overall insurance revenue. Automobile insurance, motorcycle insurance and travel insurance are the largest sources of online premium revenue, and still present abundant room for growth as compared to physical channels. Financial Supervisory Commission continues to encourage the insurance industry in making products available online by: introducing the use of negative checklist, permitting new insurance categories for online sale, increasing the maximum sum assured for travel insurance, allowing parents to purchase travel insurance for children below 7 years of age, and simplifying the automobile/motorcycle accident reporting procedures.

(III) Technological research and development:

The Company allocates budget to train professional talents and develop new products on a yearly basis.

(IV) Long and short-term business plans:

1. Short-term plan:

- (1) Optimize asset allocation for improved capital efficiency.
- (2) Offer talent transformation training programs to accommodate changes in the financial market.
- (3) Adjust premium rates and underwriting strategies based on the loss rate.
- (4) Develop/package suitable products and value-adding solutions for increased revenue.
- (5) Reduce operating costs using automated file conversion processes and B2B platforms.
- (6) Secure and maintain existing businesses; increase the percentage of new businesses and expand scale of operation.
- (7) Expand bancassurance, insurance broker/agency and direct sales channels for higher market share.
- (8) Enforce sound KYC (Know Your Customer), compliance and anti-money laundering practices to prevent financial and reputation loss.

2. Long-term plan:

- (1) Enhance human resource training as a means to secure competitiveness for future growth.
- (2) Create a technology-powered platform that replaces manual works with automated file conversion processes.
- (3) Introduce innovative marketing channels, products and risk management tools that reduce loss rate.
- (4) Utilize bank channels and form strategic alliances with participants from different industries for business expansion and broader customer reach.
- (5) Enhance and enforce enterprise risk management (ERM); apply stringent risk control that contributes toward corporate sustainability.

## II. Market and sales overview

### (I) Market analysis:

#### 1. Sale of main products and market share (in NT\$ 1,000)

| Insurance category   | Company - 2017 direct written premium | Domestic non-life insurance market - 2017 written premium | Market share |
|----------------------|---------------------------------------|---|--------------|
| Fire Insurance       | 887,156                               | 20,677,632  | 4.29%        |
| Marine Insurance     | 379,369                               | 6,794,938   | 5.58%        |
| Automobile Insurance | 4,317,972                             | 85,245,837  | 5.07%        |
| Others               | 1,415,288                             | 43,250,994  | 3.27%        |
| Total                | 6,999,785                             | 155,969,401   | 4.49%        |

#### 2. Product locations: (in NT\$ 1,000)

| Location                | Amount    | %       |
|-------------------------|-----------|---------|
| Head Office             | 2,462,530 | 35.18%  |
| Taipei Branch Office    | 909,552   | 12.99%  |
| Taochu Branch Office    | 897,368   | 12.82%  |
| Taichung Branch Office  | 825,109   | 11.79%  |
| Tainan Branch Office    | 881,410   | 12.59%  |
| Kaohsiung Branch Office | 1,023,816 | 14.79%  |
| Total                   | 6,999,785 | 100.00% |

#### 3. Future market supply and demand:

##### (1) Supply

- A. Develop new and differentiated products that satisfy customers' needs.
- B. Provide insurance planning and damage prevention advices to customers.
- C. Develop and market suitable products according to laws and market demands.
- D. Refine product marketing and service procedures in ways that satisfy customers' needs.
- E. Utilize cloud platforms for online sale and service for customers' convenience.
- F. Given the high concentration of large-sum insurance policies, the Company shall tighten financial assessment and exercise greater caution for customers that exhibit poor management and financial performance.

##### (2) Demand

- A. The arrival of smart vehicles gives rise to demands for automobile hull and theft insurance, and increased premiums.
- B. Demands for certain insurance coverage have increased due to risk management, regulatory or contractual requirements.
- C. Purchase of fire insurance riders used to be low, but has shown progressive increase in recent years.
- D. Rising awareness on the protection of personal interest has increased demand for new services and products.

- E. A rising number of companies are starting to acquire group insurance coverage for their employees, which may stimulate growth of certain insurance categories.
  - F. Recent hacker and ransomware attacks on banking systems have given rise to demands for information security insurance.
4. Opportunities and threats:
- (1) Opportunities:
- A. Launch of packaged and customized products may address the market's different needs.
  - B. The Company has the flexibility to adjust its strategies and business activities in line with market competition.
  - C. Tightened supervision from the authority helps restore order in the market and favors business expansion.
  - D. The public is increasingly aware of corporate governance and directors'/supervisors' responsibility, which gives rise to demands for directors'/supervisors' liability insurance.
  - E. Rapid advancement of electronics and technology have enabled the Company to reduce operating costs via the use of e-commerce and high-tech platforms.
  - F. Customers' rising risk awareness and availability of damage prevention measures help control the severity and frequency of accidents.
  - G. Rising awareness towards corporate social responsibilities has brought the public's attention to pollution insurance, civil engineering insurance, and information security liability insurance.
  - H. Frequent public accidents combined with increasing claims from consumers present additional business risks to most companies. Both developments are favorable to the sale of liability insurance coverage.
- (2) Threats:
- A. Some industry participants have resorted to malicious competition as a means to expand market share, which poses additional operating costs for the Company.
  - B. Some high-tech industries, such as solar power and optoelectronics, are operating under increasing risks.
  - C. Uprise of Internet banking and mobile APP has caused a reduction in the number of financial branches, and narrowed the channels through which the Company can market its products.
  - D. Slow economic growth has deterred private investment and consumption activities, which is unfavorable for business growth.
  - E. Competitors that operate under a financial group have access to more abundant resources, incur lower fixed costs, and have larger customer leads at their disposal.
  - F. Due to abnormal climates around the world, the insurance industry has experienced increase in both the frequency and extent of damage caused by natural disasters, which adversely affect business performance.

- G. As a result of government policy, the real estate market has seen fewer development projects year after year, causing a slowdown in terms of demand for engineering insurance.

(3) Responses:

- A. Create profits by exploring direct service to small and medium-sized businesses and individuals.
- B. Provide consumers with more convenient ways of purchasing insurance products and expand marketing channels.
- C. Utilize existing channels and promote residential all-risk products of higher premiums that meet consumers' requirements.
- D. Engage banks and insurance brokers/agencies in joint marketing, coordinated service and partnered business arrangements for mutual benefit.
- E. Exercise caution when underwriting coverage for high-risk business activities and locations. Control risks of retained insurance coverage on natural disaster by developing risk management system and reinsurance channels
- F. Develop consumer-oriented new products and packages in line with economic developments and social demands. Avoid malicious competition by adopting product differentiation.
- G. Upgrade the official portal and introduce SEO for better user experience and higher exposure, which favors development of online businesses in the future.
- H. Utilize new financial technologies such as big data to provide more integrated and better customized services in response to market changes and the needs of new industries.

(II) Main product applications and production processes

1. Main applications

Non-life insurance is about providing businesses, families and individuals with protection against property, liability, accident, and health-related risks. The industry not only contributes to the stability of the society and prosperity of the economy, but also provides the country with the capital needed to proceed with constructions. For the above reasons, growth of the insurance industry has become a key measurement for a country's economic development and social welfare in recent years.

2. Production process

All government policy-based insurance products designed and underwritten by non-life insurance companies must have premium rates approved by the competent authority based on a number of factors including loss rate and expense ratio, whereas other insurance products also require the approval or acknowledgment of the competent authority before underwriting.

(III) Supply of key raw materials: Not applicable as the Company is not a manufacturer.

(IV) List of main suppliers/buyers:

Name of trade partner representing more than 10% of total purchases (sales) in any of

the previous two years, and the amount and percentage of purchase (sale). Describe the cause of any variation. Code names can be used instead if contract prohibits the company from disclosing customers' names, or if the counterparty is a non-related party: Not applicable.

(V) Production volume and value in the last two years: Not applicable.

(VI) Insurance underwritten (direct written premiums) in the last two years:

Unit: policies, NTD thousands

| Item<br>Year | Fire Insurance |         | Marine Insurance |         | Automobile Insurance |           | Others       |           | Total (Note) |           |
|--------------|----------------|---------|------------------|---------|----------------------|-----------|--------------|-----------|--------------|-----------|
|              | No. of cases   | Premium | No. of cases     | Premium | No. of cases         | Premium   | No. of cases | Premium   | No. of cases | Premium   |
| 2016         | 217,988        | 856,294 | 97,252           | 380,523 | 1,210,444            | 4,043,563 | 642,120      | 1,356,346 | 2,167,804    | 6,636,726 |
| 2017         | 221,923        | 887,156 | 93,897           | 379,369 | 1,284,394            | 4,317,972 | 618,015      | 1,415,288 | 2,218,229    | 6,999,785 |

Note: Premium revenue does not include reinsurance.

### III. Employee information in the last 2 years up till the publication date of this annual report

| Year                     |                          | 2016       | 2017       | Year-to-date<br>April 30, 2018 |
|--------------------------|--------------------------|------------|------------|--------------------------------|
| Employee count           | Head Office              | 319        | 336        | 330                            |
|                          | Branches                 | 501        | 507        | 506                            |
|                          | Total                    | 820        | 843        | 836                            |
| Average age              |                          | 43.4       | 43.4       | 43.5                           |
| Average years of service |                          | 14.9 years | 14.8 years | 14.9 years                     |
| Academic background      | Doctoral Degree          | 0          | 0          | 0                              |
|                          | Masters Degree           | 39         | 47         | 48                             |
|                          | Bachelor Degree          | 644        | 663        | 658                            |
| Percentage               | Senior high school       | 133        | 130        | 127                            |
|                          | Below senior high school | 4          | 3          | 3                              |

IV. Contribution to environmental protection: None.

V. Labor-management agreement:

(I) Current major labor-management agreements and execution

1. Employee welfare measures:

Apart from mandatory Labor Insurance and National Health Insurance, the Company has also purchased group accident insurance, life insurance and cancer insurance coverage for employees, and assembled an "Employee Welfare Committee" to organize welfare activities. The committee organizes regular incentive trips, distributes concessions and cash on occasions such as Dragon Boat Festival and Mid-Autumn Festival, subsidizes employees for wedding and hospitalization, and pays compassionate money for death of relative. Both the employer and employees are engaged in active communication. Through teamwork and coordination, they work towards achieving mutual benefit and ensuring the Company's prosperous future.

2. Training:



The Company's training programs have been designed according to operating strategies and human resource plans. The Company has internal and external training courses available to help all employees gain professional knowledge, improve work efficiency/quality and develop the professional character needed to compete in the market. The Company also encourages employees to acquire insurance-related certificates, and offers incentives to train professional insurance talents.

The Company completed 1,308 internal and external training sessions in 2017 for a total of 4,223.5 hours. Enrollment count totaled 14,451, and NT\$1,142,000 in training expenses were incurred.

3. Pension system:

The Company has retirement and pension policies in place that apply to all full-time employees. According to the above policies, employees' pension benefits and severance pay are calculated based on their years of service and 6-month average salary leading up to their retirement. Since July 1, 2005, the Company has been making monthly contributions totaling 6% of monthly for all employees who have adopted the new pension system introduced under the Labor Pension Act. These contributions are deposited into employees' individual pension accounts held under the Bureau of Labor Insurance.

4. Other material agreements: None.

(II) Losses suffered in the last 3 years as a result of employment dispute:

During the labor inspection conducted by Kaohsiung City Labor Affairs Bureau in 2016, the company was found to have violated Article 24 of the Labor Standards Act, for which it was fined NT\$20,000 according to Subparagraph 1, Paragraph 1, Article 79 and Article 80-1 of the Labor Standards Act. The Company has made immediate improvements and compensated employees for overtime hours according to Article 24 of the Labor Standards Act since the penalty.

VI. Major contracts

| Contract nature          | Principals  | Contract start/end date               | Main contents   | Restrictive clauses                                |
|--------------------------|---|---------------------------------------|---|--|
| General agency agreement | A group of 90 including Kai Hsing Insurance Agency Co., Ltd.          | January 01, 2017 to December 31, 2017 | Agency of non-life insurance service                      | None   |
| Reinsurance contract     | All reinsurance participants; the lead reinsurers were CRC and Toa Re | January 01, 2017 to December 31, 2017 | Reinsurance of the Company's direct underwritten coverage | None, except for exclusions stated in the contract |

## Six. Financial Summary

### I. Summary balance sheet and statement of comprehensive income for the last 5 years

#### (I) Summary balance sheet

(in NT\$ 1,000)

| Item                             | Year               | Financial information for the last 5 years |                   |                   |                   |                   | Year-to-date<br>March 31, 2018 |
|----------------------------------|--------------------|--|-------------------|-------------------|-------------------|-------------------|--------------------------------|
|                                  |                    | 2017                                       | 2016              | 2015              | 2014              | 2013              |                                |
| Cash and cash equivalents        |                    | 1,157,174                                  | 1,231,822         | 946,805           | 1,086,854         | 1,097,755         | 1,739,164                      |
| Receivables                      |                    | 593,893                                    | 584,878           | 694,540           | 999,526           | 1,025,909         | 466,174                        |
| Financial assets and loans       |                    | 8,568,649                                  | 8,208,131         | 7,873,043         | 7,322,076         | 7,242,823         | 8,444,973                      |
| Reinsurance Contracts<br>Assets  |                    | 2,473,583                                  | 2,758,745         | 2,352,616         | 1,970,320         | 2,083,860         | 2,520,640                      |
| Property, Plant and<br>Equipment |                    | 626,390                                    | 622,106           | 631,433           | 616,693           | 619,541           | 624,784                        |
| Intangible Assets                |                    | 12,611                                     | 15,747            | 4,870             | 3,909             | 3,163             | 10,710                         |
| Other assets                     |                    | 1,557,269                                  | 1,555,229         | 1,565,022         | 1,571,008         | 1,581,095         | 1,555,431                      |
| <b>Total assets</b>              |                    | <b>14,989,569</b>                          | <b>14,976,658</b> | <b>14,068,329</b> | <b>13,570,386</b> | <b>13,654,146</b> | <b>15,361,876</b>              |
| Payables                         |                    | 764,602                                    | 682,912           | 721,202           | 764,263           | 737,521           | 745,754                        |
| Liability reserves               |                    | 8,317,402                                  | 8,711,701         | 8,313,180         | 7,742,118         | 7,806,052         | 8,610,758                      |
| Other liabilities                |                    | 209,087                                    | 208,183           | 128,436           | 158,571           | 205,336           | 210,755                        |
| Total liabilities                | Before<br>dividend | 9,291,091                                  | 9,602,796         | 9,162,818         | 8,664,953         | 8,748,909         | 9,567,267                      |
|                                  | After<br>dividend  | Note 2                                     | 9,798,552         | 9,162,818         | 8,779,395         | 9,080,189         | -                              |
| Share capital                    |                    | 3,011,638                                  | 3,011,638         | 3,011,638         | 3,011,638         | 3,011,638         | 3,011,638                      |
| Retained<br>Earnings             | Before<br>dividend | 2,660,677                                  | 2,402,882         | 1,940,381         | 1,887,834         | 1,807,942         | 2,755,845                      |
|                                  | After<br>dividend  | Note 2                                     | 2,207,126         | 1,940,381         | 1,773,392         | 1,476,662         | -                              |
| Other equity items               |                    | 26,163                                     | (40,658)          | (46,508)          | 5,961             | 85,657            | 27,126                         |
| Total equity                     | Before<br>dividend | 5,698,478                                  | 5,373,862         | 4,905,511         | 4,905,433         | 4,905,237         | 5,794,609                      |
|                                  | After<br>dividend  | Note 2                                     | 5,178,106         | 4,905,511         | 4,790,991         | 4,573,957         | -                              |

Note 1: Financial information for the last 5 years, as presented above, has been prepared according to IFRSs and audited by CPA.

Note 2: Distribution of 2017 earnings had yet to be resolved in a shareholder meeting.

#### (II) Summary statement of comprehensive income

(in NT\$ 1,000, except for earnings per share, which is in NTD)

| Item                                   | Year | Financial information for the last 5 years |                |                |                |                | Year-to-date<br>March 31,<br>2018 |
|--|------|--|----------------|----------------|----------------|----------------|-----------------------------------|
|  |      | 2017                                       | 2016           | 2015           | 2014           | 2013           |                                   |
| Revenue                                |      | 5,881,343                                  | 5,613,575      | 5,070,354      | 4,919,907      | 4,954,511      | 1,595,662                         |
| Operating Cost                         |      | 4,122,629                                  | 3,844,794      | 3,688,766      | 3,348,210      | 3,099,939      | 1,128,537                         |
| Operating Expense                      |      | 1,242,794                                  | 1,203,086      | 1,127,829      | 1,063,649      | 1,060,186      | 323,469                           |
| Non-operating income<br>and expenses   |      | ( 386)                                     | ( 1,440)       | 219            | ( 102)         | ( 901)         | -                                 |
| <b>OPERATING INCOME<br/>BEFORE TAX</b> |      | <b>515,534</b>                             | <b>564,255</b> | <b>253,978</b> | <b>507,946</b> | <b>793,485</b> | <b>143,656</b>                    |
| Net Income After Tax                   |      | 460,310                                    | 479,755        | 195,022        | 416,101        | 706,002        | 141,929                           |
| Other Comprehensive<br>Income          |      | 60,062                                     | ( 11,404)      | (80,502 )      | (84,625 )      | ( 2,267)       | (39,255)                          |
| Earnings per share                     |      | 1.53                                       | 1.59           | 0.65           | 1.38           | 2.34           | 0.47                              |

Note 1: Financial information for the last 5 years, as presented above, has been prepared according to IFRSs and audited by CPA.

## (III) Names of financial statement auditors in the last 5 years and audit opinions

| Year of audit | CPA                      | Audit opinion       |
|---------------|--------------------------|---------------------|
| 2013          | Alice Huang, Yung-Fu Liu | Unqualified opinion |
| 2014          | Alice Huang, Yung-Fu Liu | Unqualified opinion |
| 2015          | Yung-Fu Liu, Wan-Yi Liao | Unqualified opinion |
| 2016          | Yung-Fu Liu, Wan-Yi Liao | Unqualified opinion |
| 2017          | Yung-Fu Liu, Wan-Yi Liao | Unqualified opinion |

## II. Financial analysis for the last 5 years

| Analysis   |  | Year   | Financial and operational indicators in the last 5 years |        |        |        |         | Year-to-date<br>March 31,<br>2018 |
|--|--|--------|--|--------|--------|--------|---------|-----------------------------------|
|  |  | 2017   | 2016   | 2015   | 2014   | 2013   |         |                                   |
| Business performance indicators  | Variation of written premiums revenue      | 5.47   | 6.80   | 5.11   | 1.41   | 6.04   | 10.83   |                                   |
|  | Variation of losses paid                   | 13.76  | 13.03  | 2.19   | (0.23) | 3.99   | (17.76) |                                   |
|  | Variation of retained premium              | 6.14   | 5.86   | 3.68   | 5.66   | 4.15   | 9.91    |                                   |
| Profit indicators  | Return on Asset                            | 3.07   | 3.30   | 1.41   | 3.06   | 5.23   | 3.74    |                                   |
|  | Return on Equity                           | 8.31   | 9.33   | 3.98   | 8.48   | 14.77  | 9.88    |                                   |
|  | Net Investment Income Ratio                | 2.37   | 2.20   | 0.62   | 1.34   | 3.69   | 4.06    |                                   |
|  | Return on Investment                       | 2.18   | 2.04   | 0.57   | 1.23   | 3.40   | 3.74    |                                   |
|  | Combined Ratio                             | 96.23  | 100.06   | 96.70  | 97.77  | 94.59  | 99.76   |                                   |
|  | Retained Expense Ratio                     | 37.23  | 38.42  | 38.52  | 38.59  | 38.40  | 36.44   |                                   |
| Operational indicators   | Retained Earned Loss Ratio                 | 59.00  | 61.64  | 58.18  | 59.18  | 56.19  | 63.32   |                                   |
|  | Retained premium to equity ratio           | 94.25  | 94.17  | 97.44  | 93.99  | 88.95  | 101.87  |                                   |
|  | Gross premium to equity ratio              | 129.51 | 130.31   | 133.69 | 125.74 | 123.62 | 140.33  |                                   |
|  | Net reinsurance commission to equity ratio | 3.70   | 4.02   | 4.04   | 3.25   | 3.71   | 3.96    |                                   |
|  | Insurance liabilities to equity ratio      | 142.34 | 158.11   | 165.31 | 153.97 | 155.05 | 145.23  |                                   |
|  | Percentage of equity variation             | 6.04   | 9.55   | -      | -      | 5.42   | 1.69    |                                   |
|  | Expense ratio                              | 31.01  | 31.84  | 31.90  | 32.09  | 31.25  | 30.52   |                                   |
| Explanation to significance changes of 20% or higher in the last two years:<br>1. Decrease in equity growth: Mainly due to changes in current net income and cash dividends. |  |        |  |        |        |        |         |                                   |

Note 1: **Financial statements for the last 5 years, as presented above, have been prepared according to IFRSs and audited by CPA.**

Note 2: Formulas for calculation of various analyses:

1. Business performance indicators

- (1) Variation of written premiums revenue = (cumulative written premiums revenue in the current period - cumulative written premiums revenue for the corresponding period of the previous year) / cumulative written premiums revenue for the corresponding period of the previous year

["Written premiums revenue" refers to insurance premium revenues that an insurance company receives for underwriting insurance policy directly to the insured party.]

- (2) Variation of losses paid = (cumulative direct losses paid in the current period - cumulative direct losses paid in the corresponding period of the previous year) / cumulative direct losses paid in the corresponding period of the previous year

["Direct losses paid" refers to claims that an insurance company pays to insured parties of direct written policies for suffering an insured accident.]

- (3) Variation of retained premium = (cumulative retained premium in the current period - cumulative retained premium in the corresponding period of the previous year) / cumulative retained premium in the corresponding period of the previous year

[Retained premium = written premiums revenue + reinsurance premiums revenue - reinsurance premiums expense]

## 2. Profit indicators

- (1) Return on assets = [net income after tax + interest expenses × (1 - tax rate)] / average total assets.

[Average total assets = (opening assets + closing assets) / 2]

- (2) Return on equity = profit before or after tax / average equity

[Average equity = (current year's equity + previous year's equity) / 2]

- (3) Net yield on capital = net investment gains in the current period /

[(opening available capital + closing available capital - net investment gains in the current period) / 2]

- (4) Return on investment = net investment gains in the current period /

[opening assets + closing assets - net investment gains in the current period) / 2]

- (5) Combined ratio = retained expense ratio + retained earned loss ratio

- (6) Retained expense ratio = retained expenses / retained premium

[Retained premium = written premiums revenue + reinsurance premiums revenue - reinsurance premiums expense]

[Retained expenses = commission and premium expenses + reinsurance commission expenses - reinsurance commission revenues + selling expenses + administrative expenses + depreciation and amortization of self-occupied real estate properties]

- (7) Retained earned loss ratio = retained claims / retained earned premiums

[Retained claims = insurance claims paid - claims recovered from reinsurers + net change in claim reserves]

[Retained earned premiums = written premiums revenue + reinsurance premiums revenue - reinsurance premiums expense - net change in unearned premium reserve]

### 3. Operational indicators

- (1) Retained premium to equity ratio = retained premium / equity
- (2) Gross premium to equity ratio = (written premiums revenue + reinsurance premiums revenue) / equity
- (3) Net reinsurance commission to equity ratio = (unearned premium reserve / retained premium) × reinsurance commission revenues / equity
- (4) Insurance liabilities to equity ratio = Liabilities of various insurance category / equity  
[Insurance liabilities = special claim reserves + claim reserves + unearned premium reserves + other reserves]
- (5) Variation of equity = (current year's equity - previous year's equity) / absolute value of previous year's equity
- (6) Expense ratio = expenses / (written premiums revenue + reinsurance premiums revenue)  
[Expenses = commission and premium expenses + operating expenses + administrative expenses + depreciation and amortization of self-occupied real estate properties + reinsurance commission expenses]

III. Other information material to understanding the company's financial position, financial performance, cash flow and changes: None.

IV. Audit Committee's report on the review of the latest financial report:

**The First Insurance Co., Ltd.  
Audit Committee Report**

We have reviewed the Company's 2017 financial statements, business report and earnings appropriation proposal prepared by the board of directors. The financial statements have been audited by Deloitte Taiwan, to which the firm issued an independent auditor's report with unqualified opinion.

The Audit Committee has reviewed the abovementioned reports prepared by the board of directors and found them to be in compliance with regulatory requirements. We hereby issue this report in accordance with Article 14-4 of the Securities and Exchange Act and Article 219 of The Company Act.

For

2018 Annual General Meeting of The First Insurance Co., Ltd.

Audit Committee convener:

Jui-Tung Lu

March 28, 2018

## Independent Auditor's Report

To stakeholders of The First Insurance Co., Ltd.:

### **Audit opinion**

We have audited the balance sheet of The First Insurance Co., Ltd. as at December 31, 2017 and 2016, the comprehensive income statement, statement of changes in equity, and cash flow statement for the periods January 1 to December 31, 2017 and 2016, and the accompanying footnotes (including summary of major accounting policies).

In our opinion, all material disclosures of the financial statements mentioned above were prepared in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, international financial reporting standards approved and published by the Financial Supervisory Commission, the International Accounting Standards and interpretations thereof, and presented a fair view of the financial position of The First Insurance Co., Ltd. as at December 31, 2017 and 2016, and business performance and cash flow for periods January 1 to December 31, 2017 and 2016.

### **Basis of audit opinion**

We have conducted our audits in accordance with “Regulations Governing Auditing and Attestation of Financial Statements by Certified Public Accountants” and the generally accepted auditing standards. Our responsibilities as an auditor under the abovementioned standards will be explained in the Responsibilities paragraph. All relevant personnel of the accounting firm have followed CPA code of ethics and maintained independence from The First Insurance Co., Ltd. when performing their duties. We believe that the evidence obtained provide an adequate and appropriate basis for our opinion.

### **Key audit issues**

Key audit issues are matters that we considered to be the most important, based on professional judgment, when auditing the 2017 financial statements of The First Insurance Co., Ltd. These issues have already been addressed when we audited and formed our opinions on the financial statements. Therefore we do not provide opinions separately for individual issues.

Key audit issues concerning the 2017 financial statements of The First Insurance Co., Ltd. are as follows:

#### Estimation of not reported (NR) and not settled (NS) reserves

The First Insurance Co., Ltd. has an actuarial team that estimates NR/NS reserves based on previous claims and expenses incurred by the various types of insurance, using methods that conform with actuarial principles. The book value of claim reserves as at December 31, 2017 amounted to NT\$2,423,547,000, of which NT\$874,181,000 were NR/NS reserves. Because the amount was presented based on actuarial estimate, any change of assumption or any misjudgment may cause significant changes to profit and loss, and therefore has been listed as a key audit issue.

For more details on the accounting policy and methodology adopted for claim reserve provisioning, please refer to Note 4(12) and Note 5 of the financial statements. For details on amounts and changes, please refer to Note 36(3) of the financial statements.

We have performed tests to gain insight about the design and execution of various procedures and controls the Company had adopted to estimate claim reserves. In addition, we

obtained data on direct claims paid by The First Insurance Co., Ltd. for various insurance categories to verify the integrity of data used in the actuarial estimate. We also engaged external actuarial experts to help us evaluate whether the methodologies and assumptions undertaken to provide for reserves were compliant with laws, and to create proprietary models for validating the rationality of NR/NS reserves provided by the Company.

**Responsibilities of the management and governing body to the financial statements**

Responsibilities of the management were to prepare and ensure fair presentation of financial statements in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, international financial reporting standards approved and published by the Financial Supervisory Commission, the International Accounting Standards and interpretations thereof, and exercise proper internal control practices that are relevant to the preparation of financial statements so that the financial statements are free of material misstatements caused by fraud or error.

The management's responsibilities when preparing financial statements also involved: assessing the ability of The First Insurance Co., Ltd. to operate, disclose information and account for transactions as a going concern unless the management intends to liquidate or cease business operations, or is compelled to do so with no alternative solution.

The governing body of The First Insurance Co., Ltd. (including the Audit Committee) is responsible for supervising the financial reporting process.



## **Responsibilities of the auditor when auditing financial statements**

The purposes of our audit were to obtain reasonable assurance of whether the financial statements were prone to material misstatements caused by fraud or error, and issue a report of our audit opinions. We considered assurance to be reasonable only if it is highly credible. However, audit tasks conducted in accordance with generally accepted auditing principles do not necessarily guarantee detection of all material misstatements within the financial statements. Misstatements can be attributed to fraud or error. Misstatements are considered material if the individual amount or aggregate total is reasonably expected to affect economic decisions of the financial statement user.

When conducting audits in accordance with generally accepted audit principles, we exercised judgments and raised doubts as deemed professionally appropriate. We also performed the following tasks as an auditor:

1. Identifying and assessing risks of material misstatement due to fraud or error; designing and executing appropriate responsive measures for the identified risks; and obtaining adequate and appropriate audit evidence to support audit opinions. Fraud may involve conspiracy, forgery, intentional omission, untruthful declaration or breach of internal control, and our audit did not find any material misstatement where the risk of fraud is greater than the risk of error.
2. Developing the required level of understanding on relevant internal controls and designing audit procedures that are appropriate under the prevailing circumstances, but without providing opinion on the effectiveness of internal control system of The First Insurance Co., Ltd.
3. Assessing the appropriateness of accounting policies adopted by the management, and the rationality of accounting estimates and related disclosures made.
4. Forming conclusions regarding the appropriateness of management's decision to account for the business as a going concern, and whether there are doubts or uncertainties about the ability of The First Insurance Co., Ltd. to operate as a going concern, based on the audit evidence obtained. We are bound to remind financial statement users and make related disclosures if material uncertainties exist in regards to the abovementioned events or circumstances, and amend audit opinions when the disclosures are no longer appropriate. Our conclusions are based upon audit evidence obtained as of the audit report date. However, occurrences of future events or circumstances may still render The First Insurance Co., Ltd. no longer capable of operating as a going concern.
5. Assessing the overall presentation, structure and contents of the financial statements (including related footnotes), and whether certain transactions and events are presented appropriately in the financial statements.

We have communicated with the governance body about the scope, timing and significant findings (including significant defects identified in the internal control) of our audits.

We have also provided the governance body with a declaration of independence stating that all relevant personnel of the accounting firm have complied with auditors' professional ethics, and communicated with the governance body on all matters that may affect the auditor's independence (including protection measures).

We have identified the key audit issues after communicating with the governance body regarding the 2017 financial statements of The First Insurance Co., Ltd. These issues have been addressed in our audit report except for: 1. Certain topics that are prohibited by law from disclosing to the public; or 2. Under extreme circumstances, topics that we decided not to communicate in the audit report because of higher negative impacts they may cause than the benefits they bring to public interest.

Deloitte Taiwan  
CPA Yung-Fu Liu

CPA Wan-Yi Liao

Approval reference of the Securities and  
Futures Bureau  
Tai-Tsai-Zheng (VI) No. 0920123784

Approval reference of the Financial  
Supervisory Commission  
Jin-Guan-Zheng-Shen No. 1000028123

March 28, 2018

The First Insurance Co., Ltd.  
BALANCE SHEET  
As at December 31, 2017 and 2016

(in NT\$ 1,000)

| Code  | ASSETS   | December 31, 2017    |            | December 31, 2016    |            |
|-------|--|----------------------|------------|----------------------|------------|
|       |  | Amount               | %          | Amount               | %          |
| 11000 | Cash and cash equivalents (Notes 6)                                    | \$ 1,157,174         | 8          | \$ 1,231,822         | 8          |
| 12100 | Notes receivable (Notes 4, 5, and 12)                                  | 218,944              | 2          | 199,471              | 1          |
| 12200 | Premiums receivable (Notes 4, 5, and 12)                               | 325,767              | 2          | 329,323              | 2          |
| 12500 | Other receivables (Notes 4 and 12)                                     | 49,182               | -          | 56,084               | -          |
| 14110 | Financial assets at fair value through profit and loss (Notes 4 and 7) | 2,721,422            | 18         | 1,930,331            | 13         |
| 14120 | Available-for-sale financial assets (Notes 4 and 8)                    | 2,375,431            | 16         | 2,767,013            | 19         |
| 14140 | Financial assets at cost (Notes 4 and 9)                               | 657,412              | 4          | 637,895              | 4          |
| 14160 | Investment in bonds without active market (Notes 4 and 10)             | 80,000               | 1          | 80,000               | 1          |
| 14180 | Other financial assets (Notes 4, 6 and 11)                             | 2,734,384            | 18         | 2,792,892            | 19         |
| 14200 | Investment properties (Notes 4 and 13)                                 | 957,124              | 6          | 973,612              | 7          |
| 15000 | Reinsurance contract assets (Notes 4, 12, 14 and 36)                   | 2,473,583            | 17         | 2,758,745            | 18         |
| 16000 | Property, plant, and equipment (Notes 4 and 15)                        | 626,390              | 4          | 622,106              | 4          |
| 17300 | Intangible assets (Notes 4 and 16)                                     | 12,611               | -          | 15,747               | -          |
| 17800 | Deferred income tax assets (Notes 4, 5 and 25)                         | 57,683               | -          | 50,389               | -          |
| 18300 | Guarantee deposits paid (Notes 8, 17 and 27)                           | 527,271              | 4          | 518,747              | 4          |
| 18700 | Other assets - Others (Note 18)  | <u>15,191</u>        | <u>-</u>   | <u>12,481</u>        | <u>-</u>   |
| 1XXXX | Total assets   | <u>\$ 14,989,569</u> | <u>100</u> | <u>\$ 14,976,658</u> | <u>100</u> |
| Code  | LIABILITIES & STOCKHOLDERS' EQUITY                                     |                      |            |                      |            |
| 21200 | Insurance claims and benefit payable (Notes 4 and 36)                  | \$ 19,626            | -          | \$ 3,443             | -          |
| 21400 | Commission payable (Note 4)  | 116,265              | 1          | 117,188              | 1          |
| 21500 | Reinsurance accounts payable (Note 4)                                  | 466,623              | 3          | 397,447              | 3          |
| 21600 | Other payables (Note 19)   | 162,088              | 1          | 164,834              | 1          |
| 21700 | Current income tax liabilities (Note 4)                                | 17,114               | -          | 47,745               | -          |
| 24000 | Insurance liabilities (Notes 20 and 36)                                | 8,111,392            | 54         | 8,496,674            | 57         |
| 27100 | Provision for employee benefits (Notes 4, 5 and 21)                    | 206,010              | 1          | 215,027              | 1          |
| 28000 | Deferred income tax liabilities (Notes 4 and 25)                       | 92,934               | 1          | 92,934               | 1          |
| 25300 | Guarantee deposit reserve (Note 27)                                    | 15,114               | -          | 15,165               | -          |
| 25900 | Other liabilities - Others (Note 22)                                   | <u>83,925</u>        | <u>1</u>   | <u>52,339</u>        | <u>-</u>   |
| 2XXXX | Total liabilities  | <u>9,291,091</u>     | <u>62</u>  | <u>9,602,796</u>     | <u>64</u>  |
| 31000 | Share capital (Note 23)  | <u>3,011,638</u>     | <u>20</u>  | <u>3,011,638</u>     | <u>20</u>  |
|       | Retained earnings (Notes 23 and 25)                                    |                      |            |                      |            |
| 33100 | Legal reserve  | 1,065,068            | 7          | 978,866              | 6          |
| 33200 | Special reserve  | 1,319,782            | 9          | 1,136,594            | 8          |
| 33300 | Undistributed earnings   | <u>275,827</u>       | <u>2</u>   | <u>287,422</u>       | <u>2</u>   |
| 33000 | Total retained earnings  | <u>2,660,677</u>     | <u>18</u>  | <u>2,402,882</u>     | <u>16</u>  |
| 34000 | Other equity (Note 23)   | <u>26,163</u>        | <u>-</u>   | <u>(40,658)</u>      | <u>-</u>   |
| 3XXXX | Total equity   | <u>5,698,478</u>     | <u>38</u>  | <u>5,373,862</u>     | <u>36</u>  |
|       | TOTAL LIABILITIES & EQUITY   | <u>\$ 14,989,569</u> | <u>100</u> | <u>\$ 14,976,658</u> | <u>100</u> |

The accompanying notes are an integral part of the financial statements.

Chairman: Cheng-Han Lee

President: Jack Chen

Head of accounting: Fei-Fen Hsiao

The First Insurance Co., Ltd.  
Comprehensive Income Statement

For periods from January 1 to December 31, 2017 and 2016

(in NT\$ 1,000, except for earnings per share, which is in NTD)

| Code  |   | 2017               |              | 2016              |              | Variation<br>Percentage<br>(%) |
|-------|---|--------------------|--------------|-------------------|--------------|--------------------------------|
|       |   | Amount             | %            | Amount            | %            |                                |
|       | Operating revenues (Note 4)   |                    |              |                   |              |                                |
| 41110 | Written premiums (Notes 30 and 36)  | \$ 6,999,785       | 119          | \$ 6,636,726      | 118          | 5                              |
| 41120 | Reinsurance premiums (Note 36)  | <u>380,426</u>     | <u>6</u>     | <u>365,788</u>    | <u>7</u>     | 4                              |
| 41100 | Premium revenues  | 7,380,211          | 125          | 7,002,514         | 125          | 5                              |
| 51100 | Less: Reinsurance expenses (Note 36)  | ( 2,009,154)       | ( 34)        | ( 1,942,189)      | ( 35)        | 3                              |
| 51310 | Less: Net change in unearned premium reserve                                  | ( <u>127,479</u> ) | ( <u>2</u> ) | ( <u>51,369</u> ) | ( <u>1</u> ) | 148                            |
| 41130 | Retained earned premiums (Note 36)  | <u>5,243,578</u>   | <u>89</u>    | <u>5,008,956</u>  | <u>89</u>    | 5                              |
| 41300 | Reinsurance commissions received (Note 36)                                    | <u>288,958</u>     | <u>5</u>     | <u>285,320</u>    | <u>5</u>     | 1                              |
| 41400 | Service Fee   | <u>24,478</u>      | <u>-</u>     | <u>23,797</u>     | <u>1</u>     | 3                              |
|       | Net investment gains  |                    |              |                   |              |                                |
| 41510 | Interest Income   | 108,470            | 2            | 105,377           | 2            | 3                              |
| 41521 | Gains on Financial Assets or Liabilities at Fair Value through Profit or Loss | 186,270            | 3            | 128,705           | 2            | 45                             |
| 41522 | Realized Gains on Available-for-Sale Financial Assets                         | ( 11,241)          | -            | 3,016             | -            | ( 473)                         |
| 41523 | Realized Gains on Financial Assets or Liabilities at Cost                     | 15,329             | -            | 13,499            | -            | 14                             |
| 41524 | Realized Gains on Bond Investments Without Active Market                      | 4,745              | -            | -                 | -            | -                              |
| 41550 | Foreign exchange gains (losses) (Note 24)                                     | ( 34,410)          | -            | ( 10,919)         | -            | 215                            |
| 41570 | Gains (losses) on investment property (Notes 24 and 27)                       | <u>54,619</u>      | <u>1</u>     | <u>53,411</u>     | <u>1</u>     | 2                              |
| 41500 | Total net investment gains  | <u>323,782</u>     | <u>6</u>     | <u>293,089</u>    | <u>5</u>     | 10                             |
|       | Other operating revenues  |                    |              |                   |              |                                |
| 41890 | Other operating revenues - Others   | <u>547</u>         | <u>-</u>     | <u>2,413</u>      | <u>-</u>     | ( 77)                          |
| 41000 | TOTAL OPERATING REVENUE   | <u>5,881,343</u>   | <u>100</u>   | <u>5,613,575</u>  | <u>100</u>   | 5                              |

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| Code  |  | 2017             |           | 2016             |           | Variation<br>Percentage<br>(%) |
|-------|--|------------------|-----------|------------------|-----------|--------------------------------|
|       |  | Amount           | %         | Amount           | %         |                                |
|       | Operating Cost   |                  |           |                  |           |                                |
|       | Retained claims and benefits paid (Notes 30 and 36)    |                  |           |                  |           |                                |
| 51200 | Insurance claim and benefit payments                   | \$ 4,556,084     | 78        | \$ 4,005,275     | 71        | 14                             |
| 41200 | Less: Claims recovered from reinsurers                 | ( 1,390,627 )    | ( 24 )    | ( 1,142,718 )    | ( 20 )    | 22                             |
| 51260 | Total retained claims and benefits paid                | <u>3,165,457</u> | <u>54</u> | <u>2,862,557</u> | <u>51</u> | 11                             |
|       | Net change in other liabilities (Note 36)              |                  |           |                  |           |                                |
| 51320 | Net Change in Reserve for Claim                        | ( 72,004 )       | ( 1 )     | 224,970          | 4         | ( 132 )                        |
| 51340 | Net Change in Reserve for Special Claim                | ( 28,562 )       | ( 1 )     | ( 280,224 )      | ( 5 )     | ( 90 )                         |
| 51350 | Net Change in Premium Deficiency Reserves              | ( 316 )          | -         | 5,312            | -         | ( 106 )                        |
| 51300 | Total net change in other liabilities                  | ( 100,882 )      | ( 2 )     | ( 49,942 )       | ( 1 )     | 102                            |
| 51510 | Commission expenses (Note 36)                          | <u>898,514</u>   | <u>15</u> | <u>881,480</u>   | <u>16</u> | 2                              |
| 51600 | Service charges (Note 36)                              | <u>134,199</u>   | <u>2</u>  | <u>132,072</u>   | <u>3</u>  | 2                              |
|       | Other Operating Costs                                  |                  |           |                  |           |                                |
| 51810 | Contribution to insurance stabilization fund (Note 36) | 13,353           | 1         | 12,719           | -         | 5                              |
| 51850 | Loss on exchange - non-investment (Note 24)            | 7,437            | -         | 5,884            | -         | 26                             |
| 51890 | Other operating costs - Others                         | <u>4,551</u>     | -         | <u>24</u>        | -         | 18,863                         |
| 51800 | Total other operating costs                            | <u>25,341</u>    | <u>1</u>  | <u>18,627</u>    | -         | 36                             |
| 51000 | TOTAL OPERATING COSTS                                  | <u>4,122,629</u> | <u>70</u> | <u>3,844,794</u> | <u>69</u> | 7                              |
| 60000 | GROSS OPERATING INCOME                                 | <u>1,758,714</u> | <u>30</u> | <u>1,768,781</u> | <u>31</u> | ( 1 )                          |
|       | Operating expenses (Notes 24 and 30)                   |                  |           |                  |           |                                |
| 58100 | General Expenses                                       | 1,138,920        | 19        | 1,111,860        | 20        | 2                              |
| 58200 | Administrative Expenses                                | 101,256          | 2         | 89,881           | 1         | 13                             |
| 58300 | Staff Training Expenses                                | <u>2,618</u>     | -         | <u>1,345</u>     | -         | 95                             |
| 58000 | Total operating expenses                               | <u>1,242,794</u> | <u>21</u> | <u>1,203,086</u> | <u>21</u> | 3                              |
| 61000 | TOTAL OPERATING INCOME                                 | <u>515,920</u>   | <u>9</u>  | <u>565,695</u>   | <u>10</u> | ( 9 )                          |

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| Code  |  | 2017       |   | 2016       |    | Variation<br>Percentage<br>(%) |
|-------|--|------------|---|------------|----|--------------------------------|
|       |  | Amount     | % | Amount     | %  |                                |
|       | Non-operating income and expenses  |            |   |            |    |                                |
| 59100 | Gain on disposal of property, plant and equipment                          | (\$ 437)   | - | (\$ 1,420) | -  | ( 69)                          |
| 59920 | Sundry income  | 75         | - | 29         | -  | 159                            |
| 59990 | Sundry expenses  | ( 24)      | - | ( 49)      | -  | ( 51)                          |
| 59000 | Total non-operating income and expenses                                    | ( 386)     | - | ( 1,440)   | -  | ( 73)                          |
| 62000 | Pre-tax profit from continuing operations                                  | 515,534    | 9 | 564,255    | 10 | ( 9)                           |
| 63000 | Income tax expense (Notes 4 and 25)  | 55,224     | 1 | 84,500     | 2  | ( 35)                          |
| 66000 | Current net income   | 460,310    | 8 | 479,755    | 8  | ( 4)                           |
|       | Other Comprehensive Income   |            |   |            |    |                                |
| 83100 | Items not reclassified into profit and loss                                |            |   |            |    |                                |
| 83110 | Revaluation of defined benefit plan (Notes 4 and 21)                       | ( 6,759)   | - | ( 17,254)  | -  | ( 61)                          |
| 83200 | Items likely to be reclassified into profit and loss                       |            |   |            |    |                                |
| 83220 | Unrealized valuation gain on available-for-sale financial assets (Note 23) | 66,821     | 1 | 5,850      | -  | 1,042                          |
| 83000 | Other comprehensive income for the current period (net, after-tax)         | 60,062     | 1 | ( 11,404)  | -  | 627                            |
| 85000 | Total comprehensive income - current                                       | \$ 520,372 | 9 | \$ 468,351 | 8  | 11                             |
|       | Earnings per share (Note 26)   |            |   |            |    |                                |
| 97500 | Basic  | \$ 1.53    |   | \$ 1.59    |    |                                |
| 98500 | Diluted  | \$ 1.53    |   | \$ 1.59    |    |                                |

The accompanying notes are an integral part of the financial statements.

Chairman: Cheng-Han Lee

President: Jack Chen

Head of accounting: Fei-Fen Hsiao

The First Insurance Co., Ltd.  
Statement of Changes in Equity  
For periods from January 1 to December 31, 2017 and 2016

(in NT\$ 1,000)

| Code |   | Share capital (Note 23) | Retained earnings (Notes 23 and 25) |                     |                        | Available-for-Sale Financial Assets Unrealized gains (Note 23) | Total equity        |
|------|---|-------------------------|-------------------------------------|---------------------|------------------------|--|---------------------|
|      |   |                         | Legal reserve                       | Special reserve     | Undistributed earnings |  |                     |
| A1   | Balance as at January 01, 2016              | \$ 3,011,638            | \$ 945,135                          | \$ 993,009          | \$ 2,237               | ( \$ 46,508 )  | \$ 4,905,511        |
|      | Appropriation and distribution of earnings: |                         |                                     |                     |                        |  |                     |
| B1   | Legal reserve                               | -                       | 33,731                              | -                   | ( 33,731 )             | -  | -                   |
| B3   | Special reserve                             | -                       | -                                   | 143,585             | ( 143,585 )            | -  | -                   |
| D1   | 2016 net income                             | -                       | -                                   | -                   | 479,755                | -  | 479,755             |
| D3   | 2016 other comprehensive income             | =                       | =                                   | =                   | ( 17,254 )             | 5,850  | ( 11,404 )          |
| D5   | 2016 total comprehensive income             | =                       | =                                   | =                   | 462,501                | 5,850  | 468,351             |
| Z1   | Balance as at December 31, 2016             | 3,011,638               | 978,866                             | 1,136,594           | 287,422                | ( 40,658 )   | 5,373,862           |
|      | Appropriation and distribution of earnings: |                         |                                     |                     |                        |  |                     |
| B1   | Legal reserve                               | -                       | 86,202                              | -                   | ( 86,202 )             | -  | -                   |
| B3   | Special reserve                             | -                       | -                                   | 183,188             | ( 183,188 )            | -  | -                   |
| B5   | Cash dividend                               | -                       | -                                   | -                   | ( 195,756 )            | -  | ( 195,756 )         |
| D1   | 2017 net income                             | -                       | -                                   | -                   | 460,310                | -  | 460,310             |
| D3   | 2017 other comprehensive income             | =                       | =                                   | =                   | ( 6,759 )              | 66,821   | 60,062              |
| D5   | 2017 total comprehensive income             | =                       | =                                   | =                   | 453,551                | 66,821   | 520,372             |
| Z1   | Balance as at December 31, 2017             | <u>\$ 3,011,638</u>     | <u>\$ 1,065,068</u>                 | <u>\$ 1,319,782</u> | <u>\$ 275,827</u>      | <u>\$ 26,163</u>   | <u>\$ 5,698,478</u> |

The accompanying notes are an integral part of the financial statements.

Chairman: Cheng-Han Lee

President: Jack Chen

Head of accounting: Fei-Fen Hsiao

The First Insurance Co., Ltd.  
Cash Flow Statement  
For periods from January 1 to December 31, 2017 and 2016

| Code   |  | 2017          | (in NT\$ 1,000)<br>2016 |
|--------|--|---------------|-------------------------|
|        | Cash flow from operating activities  |               |                         |
| A10000 | Pre-tax profit for the current period  | \$ 515,534    | \$ 564,255              |
|        | Adjustments:   |               |                         |
|        | Income, expenses and losses  |               |                         |
| A20100 | Depreciation   | 17,110        | 17,598                  |
| A20200 | Amortization   | 7,440         | 4,038                   |
| A21200 | Interest Income  | ( 108,470)    | ( 105,377)              |
| A21300 | Dividend income  | ( 102,092)    | ( 49,170)               |
| A21400 | Net change of various reserves - current                                       | ( 385,282 )   | 387,135                 |
| A22500 | Loss on asset disposal   | 437           | 1,420                   |
|        | Change in assets/liabilities related to operating activities                   |               |                         |
| A51110 | Notes receivable   | ( 19,473)     | ( 4,009)                |
| A51120 | Premiums receivable  | 3,556         | 131,976                 |
| A51130 | Other Receivable   | ( 1,289)      | ( 2,176)                |
| A51140 | Gains on financial assets or liabilities at fair value through profit and loss | ( 791,091)    | 557,942                 |
| A51160 | Other Financial Assets   | 58,508        | ( 117,648)              |
| A51170 | Reinsurance Contracts Assets   | 285,162       | ( 406,129)              |
| A51190 | Guarantee Deposits Paid  | 754           | ( 5,387)                |
| A51220 | Available-for-Sale Financial Assets  | 441,941       | ( 744,372)              |
| A51230 | Financial Assets at Cost   | ( 19,517)     | ( 51,013)               |
| A51240 | Bond investment without active market  | -             | 42,000                  |
| A51990 | Other assets   | ( 2,710)      | 1,503                   |
| A52120 | Claims Payable   | 16,183        | ( 21,049)               |
| A52140 | Commission Payable   | ( 923)        | ( 520)                  |
| A52150 | Reinsurance Accounts Payable   | 69,176        | ( 36,610)               |
| A52160 | Other Payable  | ( 2,746)      | 19,889                  |
| A52200 | Provisions for Employee Benefits   | ( 17,161)     | ( 9,402)                |
| A52240 | Guarantee Deposit Reserve  | ( 51)         | 261                     |
| A52990 | Other liabilities  | <u>31,586</u> | <u>34,788</u>           |
| A33000 | Cash inflow (outflow) from operating activities                                | ( 3,418)      | 209,943                 |
| A33100 | Interests received   | 123,845       | 80,601                  |

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| <u>Code</u> |   | <u>2017</u>         | <u>2016</u>         |
|-------------|---|---------------------|---------------------|
| A33200      | Dividends received  | \$ 102,092          | \$ 49,170           |
| A33500      | Income tax paid   | ( 91,764)           | ( 37,397)           |
| AAAA        | Net cash inflow from operating activities                         | <u>130,755</u>      | <u>302,317</u>      |
|             | Cash flow from investing activities                               |                     |                     |
| B02700      | Acquisition of property, plant and equipment                      | ( 5,343)            | ( 2,385)            |
| B04500      | Acquisition of intangible assets                                  | ( 4,304)            | ( 14,915)           |
| BBBB        | Net cash outflow from investing activities                        | ( 9,647)            | ( 17,300)           |
|             | Cash outflow from financing activities                            |                     |                     |
| C04500      | Cash dividends paid   | ( 195,756)          | -                   |
| EEEE        | Increase (decrease) in cash and cash equivalent in current period | ( 74,648)           | 285,017             |
| E00100      | Opening cash and cash equivalents                                 | <u>1,231,822</u>    | <u>946,805</u>      |
| E00200      | Closing cash and cash equivalents                                 | <u>\$ 1,157,174</u> | <u>\$ 1,231,822</u> |

The accompanying notes are an integral part of the financial statements.

Chairman: Cheng-Han Lee

President: Jack Chen

Head of accounting: Fei-Fen Hsiao

The First Insurance Co., Ltd.

Notes to financial statements

For periods from January 1 to December 31, 2017 and 2016

(Unless otherwise specified, all amounts are presented in NTD thousands)

I. Corporate history

The First Insurance Co., Ltd. (the Company) was founded in September 1962. It is primarily involved in the offering of non-life insurance products, particularly fire insurance, cargo insurance and automobile insurance. The Company has branches established in Taichung, Kaohsiung, Tainan, Taoyuan and New Taipei city.

On November 28, 2000, the Company received approval from Securities and Futures Commission, Ministry of Finance, to list for trading on Taiwan Stock Exchange Corporation.

This financial report is presented using the Company's functional currency (NTD).

II. Financial statement approval date and procedures

This financial report was passed during the board of directors meeting dated March 28, 2018.

III. Adoption of new and amended standards and interpretations

- (I) First-time adoption of amended Regulations Governing the Preparation of Financial Reports by Insurance Enterprises, International Financial Reporting Standards (IFRS) approved by the Financial Supervisory Commission (“FSC”), International Accounting Standards (IAS), and interpretations (IFRIC) and announcements (SIC) thereof (collectively referred to as “IFRSs” below)

Adoption of amended Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and FSC-approved IFRSs did not result in any material change to the Company's accounting policies.

- (II) Adoption of Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and FSC-approved IFRSs in 2018

| <u>New/Amended/Modified Standards and Interpretations</u>   | <u>Effective date of IASB announcement (Note 1)</u> |
|---|---|
| “Improvements for years 2014-2016”  | Note 2  |
| Amendment to IFRS 2 - “Classification and Measurement of Share-based Payment”                     | January 1, 2018                                     |
| Amendment to IFRS 4 - “Applying IFRS 9 - Financial Instruments with IFRS 4 - Insurance Contracts” | January 1, 2018                                     |
| IFRS 9 - “Financial instruments”  | January 1, 2018                                     |
| Amendment to IFRS 9 and IFRS 7 - “Mandatory effective date and transition disclosures”            | January 1, 2018                                     |

(Continued next page)

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| <u>New/Amended/Modified Standards and Interpretations</u>                       | <u>Effective date of IASB announcement (Note 1)</u> |
|---|---|
| IFRS 15 - "Revenue from contracts with customers"                               | January 1, 2018                                     |
| Amendment to IFRS 15 - "Interpretation of IFRS 15"                              | January 1, 2018                                     |
| Amendment to IAS 7 - "Disclosure initiative"                                    | January 1, 2017                                     |
| Amendment to IAS12 - "Recognition of deferred tax assets for unrealized losses" | January 1, 2017                                     |
| Amendment to IAS 40 - "Transfers of investment property"                        | January 1, 2018                                     |
| IFRIC 22 - "Foreign currency transactions and advance consideration"            | January 1, 2018                                     |

Note 1: Unless otherwise specified, all new/amended/modified standards and interpretations above shall take effect from the financial year that begins after the specified date.

Note 2: With the exception of IFRS 12, which applies retrospectively to financial years after January 1, 2017, all other amendments are applied retrospectively to financial years after January 1, 2018.

- Adoption of amendments to IFRS 9 - "Financial instruments" and IFRS 4 - "Applying IFRS 9 - Financial Instruments with IFRS 4 - Insurance Contracts" Reclassification, measurement and impairment of financial assets

All financial assets previously recognized in accordance with IAS 39 - "Financial Instruments: Recognition and Measurement" will be measured either at cost after amortization or at the fair value. IFRS 9 has introduced the following rules with regards to the classification of financial assets.

Investment in debt instruments shall be classified and measured as follows if contractual cash flow consists entirely of principal repayment and payment of interest on outstanding principal:

- (1) Financial assets that are held for the purpose of collecting contractual cash flow are measured at cost after amortization. These financial assets will have interest revenues recognized in profit and loss at the effective interest rate, and impairments assessed on an ongoing basis. Impairments are also recognized in profit and loss.
- (2) Financial assets that are held for the purpose of collecting contractual cash flow and resale shall be measured at fair value through other comprehensive income. These financial assets will have interest revenues recognized in profit and loss at the effective interest rate, and impairments assessed on an ongoing basis. Impairments and exchange gains/losses are also recognized in profit and loss, whereas all other fair value changes are recognized as other comprehensive income. When such financial assets are decommissioned or reclassified, any fair value

changes previously accumulated under other comprehensive income shall be reclassified into profit and loss.

Investment of financial assets that do not meet the above criteria are measured at fair value with fair value changes recognized in profit and loss. However, the Company may choose, at initiation, to account for equity investments that are not held for trading in fair value and recognize fair value changes through other comprehensive income. For these financial assets, only dividend income is recognized in profit and loss, while other gains and losses are recognized as other comprehensive income. No subsequent assessment of impairment is required, and fair value changes accumulated under other comprehensive income are not reclassified into profit and loss on a later date.

Furthermore, amendment of IFRS 4 allows all corporate entities having adopted IFRS 9 to use the overlay approach for insurance contracts issued within the scope of IFRS 4. Financial assets eligible for the overlay approach are limited only to those measured at fair value through profit and loss under IFRS 9, which are subject to different method of measurement from IAS 39, and are not held for activities unrelated to IFRS 4 - Insurance Contracts. Corporate entities that opt for the overlay approach must specify the scope of eligible financial assets to apply the overlay approach when adopting IFRS 9 for the first time. All new assets acquired in subsequent periods need to be specified for the overlay approach at initiation. Changes in the fair value of eligible financial assets shall be divided into two portions. Amount that is subject to IAS 39 shall be presented in profit and loss, whereas the difference between IFRS 9 and IAS 39 treatments shall be presented in other comprehensive income. Amounts reclassified from profit and loss to other comprehensive income must be presented separately in the comprehensive income statement, with relevant information disclosed in the footnotes.

Based on the financial assets held and the prevailing circumstances as at December 31, 2017, the Company has identified changes in the classification and measurement of the following financial assets due to adoption of IFRS 9:

- (1) Investments in TWSE/TPEX-listed and unlisted shares classified as available-for-sale financial assets will be measured at fair value through other comprehensive income according to IFRS 9. Under this classification, any fair value changes accumulated under other equity items are no longer reclassified into profit and loss when the investment is disposed, but will instead be transferred directly into retained earnings. In addition, unlisted share investments carried at cost will be measured at fair value instead, pursuant to IFRS 9.
- (2) Fund beneficiary certificates classified as available-for-sale financial assets will be measured at fair value through profit and loss according to IFRS 9, as they do not carry the characteristics of equity instrument and the cash flows generated are not entirely intended to repay outstanding principals and interests accruing on the principals.

- (3) Bond investments without active market that are currently carried at cost after amortization will be measured at fair value through profit and loss instead, according to IFRS 9, as the contractual cash flows at initial recognition are not entirely intended to repay outstanding principals and interests accruing on the principals.

IFRS 9 introduced the “Expected Credit Loss” approach for recognizing impairment on financial assets. Allowance for impairment losses must be recognized for financial assets carried at cost after amortization and bond investments measured at fair value through other comprehensive income. If there is no significant increase in the credit risk of financial assets after initial recognition, credit loss allowance shall be made based on expected credit losses over the next 12 months. However, should the above financial assets encounter any significant increase in credit risk since initial recognition, the credit loss allowance shall be made based on expected credit losses over the remaining duration of the financial assets. For accounts receivable that constitute a material financial component, credit loss allowances need to be made based on expected losses over the duration of receivables.

For financial assets that exhibit credit impairment since initial recognition, the Company calculates credit-adjusted effective interest rate based on expected credit loss estimated at initial recognition, and makes subsequent credit loss allowances based on cumulative changes in expected credit loss.

For accounts receivable, the Company will be making loss allowances based on expected credit losses. Investments in debt instruments will be assessed in subsequent periods for significant increase of credit risk after initiation, in order to determine whether loss allowances should be measured based on expected credit losses over a 12-month period or over the duration of debt instrument. Adopting the expected credit loss model specified in IFRS 9 will cause the Company to recognize credit losses on financial assets at an earlier date.

The Company will not restate 2017 financial statements to compare differences arising from its choice of financial asset classification, measurement and impairment rules under IFRS 9. Cumulative impacts from first-time adoption will be recognized on the date of first adoption, and disclosed in details the reclassifications made and reconciliation of IFRS 9 practices.

Expected impacts to asset, liability and equity balances as at January 1, 2018 after retrospective application of financial asset reclassification, measurement and impairment rules stated in IFRS 9 are presented below:

|   | Book value as at<br>December 31,<br>2017 | Adjustments for<br>initial adoption | January 1, 2018<br>After adjustment<br>Book value |
|---|--|-------------------------------------|---|
| Effect on assets,<br>liabilities and<br>equity  |  |                                     |   |
| <u>Financial Assets at Fair<br/>Value through Profit<br/>or Loss</u>  | \$ 2,721,422                             | \$ 200,798                          | \$ 2,922,220                                      |
| Financial assets at fair<br>value through other<br>comprehensive<br>income                                      | -  | 1,343,328                           | 1,343,328   |
| Available-for-sale<br>financial assets<br>(Note)  | 2,847,713                                | ( 2,847,713 )                       | -   |
| Financial assets carried<br>at cost after<br>amortization   | -  | 2,034,456                           | 2,034,456   |
| Financial Assets at<br>Cost   | 657,412                                  | ( 657,412 )                         | -   |
| Investment in bond<br>without active<br>markets   | <u>80,000</u>                            | ( <u>80,000</u> )                   | <u>-</u>  |
| Effect on assets  | <u>\$ 6,306,547</u>                      | ( <u>\$ 6,543</u> )                 | <u>\$ 6,300,004</u>                               |
| Retained Earnings   | \$ 2,660,677                             | \$ 16,182                           | \$ 2,676,859                                      |
| Unrealized gains/losses<br>on available-for-sale<br>financial assets  | 26,163                                   | ( 26,163 )                          | -   |
| Gains/losses on<br>valuation of equity<br>instruments at fair<br>value through other<br>comprehensive<br>income | -  | ( 15,492 )                          | ( 15,492 )  |
| Gains/losses on debt<br>instruments at fair<br>value through other<br>comprehensive<br>income                   | -  | <u>18,930</u>                       | <u>18,930</u>                                     |
| Effects on equity   | <u>\$ 2,686,840</u>                      | ( <u>\$ 6,543</u> )                 | <u>\$ 2,680,297</u>                               |

Note: The Company has placed NT\$472,282,000 of government bond as operation bond, which is presented as guarantee deposits paid.

Apart from the impacts mentioned above, the Company expected no material impact from amendments of other standards and interpretations to its financial position and business performance as of the publication date of this financial report.

(III) IFRSs published by IASB but yet to be approved by FSC

| New/Amended/Modified Standards and Interpretations   | Effective date of IASB announcement (Note 1) |
|--|--|
| “Improvements for years 2015-2017”   | January 1, 2019                              |
| Amendment to IFRS 9 - “Prepayment features with negative compensation”   | January 1, 2019 (Note 2)                     |
| Amendment of IFRS and IAS 28 - “Sale or contribution of assets between investor and associated companies/joint ventures” | Undetermined                                 |
| IFRS 16 - “Leases”   | January 1, 2019 (Note 3)                     |
| IFRS 17 - “Insurance contracts”  | January 1, 2021                              |
| Amendment to IAS 19 - “Plan amendment, curtailment or settlement”  | January 1, 2019 (Note 4)                     |
| Amendment to IAS 28 - “Long-term interests in associates and joint ventures”   | January 1, 2019                              |
| IFRIC 23 - “Uncertainty over income tax treatments”  | January 1, 2019                              |

Note 1: Unless otherwise specified, all new/amended/modified standards and interpretations above shall take effect from the financial year that begins after the specified date.

Note 2: FSC allows the Company to adopt this amendment early on January 1, 2018.

Note 3: On December 19, 2017, the FSC announced that local businesses shall adopt IFRS 16 starting from January 1, 2019.

Note 4: This amendment will apply to all plan amendments, curtailments and settlements that take place after January 1, 2019.

1. IFRS 16 - “Leases”

IFRS 16 regulates accounting treatments for leases. This standard will supersede corresponding rules and interpretations in IAS 17 - “Leases.”

For lease arrangements where the Company is a tenant, IFRS 16 requires the Company to recognize both usage rights assets and lease liabilities on the balance sheet, except for low-value and short-term leases that can be accounted similarly to an operating lease described in IAS 17. The statement of comprehensive income needs to make separate presentations of depreciation expense on usage rights asset and interest expense accrued on lease liabilities using the effective interest method. In the cash flow statement, repayment of lease liabilities is presented as a financing activity, while payment of interest on leases is presented as an operating activity.

There should be no material impact to the accounting treatment of leases where the Company is a lessor.

When IFRS 16 is effected, the Company may choose to make retrospective adjustments to figures of the comparative period or recognize cumulative effects in one lump sum on the day of initial adoption.

2. IFRS 17 - “Insurance contracts”

Accounting treatment of insurance contracts stated under IFRS 17 will supersede IFRS 4 - “Insurance contracts.” Main context of IFRS 17 is as follows:

Level of aggregation for insurance contracts

IFRS 17 requires the Company to identify portfolios of insurance contracts. A portfolio refers to contracts that are subject to similar risks and management. Contracts within a product line would be expected to have similar risks and hence would be expected to be in the same portfolio if they are managed together. Each portfolio of insurance contracts issued by the Company shall be divided into a minimum of:

- (a) A group of contracts that are onerous at initial recognition;
- (b) A group of contracts that, at initial recognition, have no significant possibility of becoming onerous subsequently; and
- (c) A group of the remaining contracts in the portfolio.

The Company is not permitted to include contracts issued more than one year apart in the same group, and shall apply appropriate recognition and measurement rules of IFRS 17 for the portfolios it has determined.

Recognition

The Company shall recognize a group of insurance contracts it issues from the earliest of the following:

- (a) The beginning of the coverage period of the group of contracts;
- (b) The date when the first payment from a policyholder in the group becomes due; and
- (c) For a group of onerous contracts, when the group becomes onerous.

Measurement at initial recognition

On initial recognition, the Company shall measure a group of insurance contracts at the total of fulfillment cash flows and contractual service margin. The fulfillment cash flows (“FCF”) comprise estimates of future cash flows, an adjustment to reflect the time value of money (“TVM”) and the financial risks associated with the future cash flows, and a risk adjustment for non-financial risk. Contractual service margin represents the unearned profit of the group of insurance contracts that the Company will recognize as it provides services in the future. Unless the group of contracts is onerous, contractual service margin is measured on initial recognition of a group of insurance contracts at an amount that results in no income or expenses arising from: (a) The initial recognition of an amount for the FCF; (b) The de-recognition at that date of any asset or liability recognized for insurance acquisition cash flows; and (c) Any cash flows arising from the contracts in the group at that date.

Subsequent measurement



On subsequent measurement, the carrying amount of a group of insurance contracts at the end of each reporting period shall be the book value sum of the liability for remaining coverage and liability for incurred claims. Liability for remaining coverage includes FCF related to future services, the CSM, and FCF related to past service allocated to the group at that date. If a group of insurance contracts becomes onerous (or more onerous), that excess shall be recognized in profit or loss immediately.

#### Onerous contracts

An insurance contract is onerous at initial recognition if the total of the FCF, any previously recognized acquisition cash flows and any cash flows arising from the contract at that date is a net outflow. The Company shall recognize a loss in profit or loss for the net outflow, resulting in the carrying amount of the liability for the group being equal to the FCF and the CSM of the group being zero. The CSM cannot increase and no revenue can be recognized, until the onerous amount previously recognized has been reversed in profit or loss.

#### Premium allocation approach

The Company may simplify measurement for a group of insurance contracts using the Premium Allocation Approach (PAA) on the condition that, at the inception of the group:

- (a) The Company reasonably expects the size of liability for remaining coverage measured from PAA to be a reasonable approximation of the general model, or
- (b) The coverage period of each contract in the group is one year or less.

Where, at the inception of the group, the Company expects significant variances in the FCF before a claim is incurred that would affect the measurement of liabilities for remaining coverage, such contracts are not eligible for condition (a).

Using the PAA, the liability for remaining coverage shall be initially recognized as the premiums received at initial recognition minus any insurance acquisition cash flows. Subsequently, the carrying amount of the liability shall be adjusted for premiums received, amortization of acquisition cash flows, minus the amount recognized as insurance revenue for coverage provided in that period, and minus any investment component paid or transferred to the liability for incurred claims.

#### Investment contracts with a discretionary participation feature

An investment contract with a discretionary participation feature (DPF) is a financial instrument that does not include a transfer of significant insurance risk. These contracts are subject to IFRS 17 only if the Company issues investment contracts with DFP and insurance contracts at the same time.

#### Modification and derecognition

If the terms of an insurance contract are modified, the Company shall de-recognize the original contract and recognize the modified contract as a new

contract if there is a substantive modification that meets any of the specified criteria.

The Company shall de-recognize an insurance contract when it is extinguished or if any substantive modification is made.

#### Transition

In general, the Company shall fully adopt IFRS 17 on a retrospective basis. However, where it is impracticable to do so, the Company shall have the option of using either the modified retrospective approach or the fair value approach.

Under the modified retrospective approach, the Company shall utilize reasonable and supportable information and maximize the use of information that would have been used to apply a full retrospective approach, but need only use information available without undue cost or effort. If reasonable and supportable information is unavailable, the Company shall apply the fair value approach instead.

Under the fair value approach, the Company determines CSM at the transition date as the difference between the fair value of a group of insurance contracts at that date and the FCF measured at that date.

Apart from the impacts mentioned above, the Company continues to evaluate how amendments of the above standards and interpretations will affect its financial position and business performance as of the publication date of the financial statements. Outcomes of these assessments will be disclosed once they are concluded.

#### IV. Summary of significant accounting policies

##### (I) Statement of compliance

This financial report has been prepared in accordance with Regulations Governing the Preparation of Financial Reports by Insurance Enterprises and FSC-approved IFRSs.

##### (II) Basis of preparation

This financial report has been prepared based on historical cost, except for financial instruments carried at fair value.

Fair value measurement can be rated on a level of 1 to 3 depending on the ease of observation and significance of inputs:

1. Level 1 input: Refers to quotations that can be obtained from an active market (unadjusted) on the measurement date for asset or liability of equivalent nature.
2. Level 2 input: Refers to inputs that can be observed directly (i.e. price) or indirectly (i.e. established from price) for an asset or liability, other than Level 1 quotations.
3. Level 3 input: Refers to inputs that can not be observed for an asset or liability.

##### (III) Classification of current and non-current assets and liabilities

Due to the distinctive nature of its business activities, the Company does not classify assets and liabilities into current or non-current categories, but instead presents its accounts in the order of relative liquidity.

(IV) Foreign currencies

Monetary foreign currency accounts are converted using closing exchange rates as at every balance sheet date. Exchange differences arising from settlement or translation of monetary accounts are recognized in profit and loss in the year occurred.

Foreign currency-denominated non-monetary items carried at fair value are converted using exchange rates as at the date of fair value assessment; exchange differences are recognized in the current profit and loss. However, items that have fair value changes recognized in other comprehensive income shall also have exchange differences recognized in other comprehensive income.

Foreign currency-denominated non-monetary items carried at historical cost are converted using exchange rate as at the date of initial transaction. No further re-calculation shall be made.

(V) Property, Plant and Equipment

Property, plant and equipment are initially recognized at cost, and subsequently presented at cost after accumulated depreciation and impairment.

Property, plant, and equipment are depreciated on a straight-line basis. Depreciation is recognized separately for each material category. The Company reviews the estimated useful life, residual value and depreciation method at least once at the end of each year. Impacts of changes in accounting estimates are applied prospectively.

Gains or losses arising from decommissioned property, plant and equipment are calculated as the difference between disposal proceeds and the asset's book value, and are recognized in profit and loss in the year occurred.

(VI) Investment property

Investment properties are real estate properties held for rental income or capital gain, or both. Investment properties also include land held on hand that the Company has yet to determine their future uses.

Investment properties are initially recognized at cost (including transaction cost) and subsequently presented at cost after accumulated depreciation and impairment. Depreciation is provided on a straight-line basis.

Difference between the disposal proceed and book value of decommissioned investment property is recognized in profit and loss.

(VII) Intangible assets

Intangible assets that are acquired through separate purchase with limited useful life are recognized at cost at initiation, and subsequently presented at cost less accumulated amortization and impairment. Intangible assets are amortized on a straight-line basis over their useful lives. The estimated useful life, residual value and depreciation method are reviewed at least once at the end of each year. Impacts of changes in accounting estimates are applied prospectively.

Difference between the disposal proceed and book value of decommissioned intangible assets is recognized in current profit and loss.

(VIII) Impairment of tangible and intangible assets (except goodwill)

The Company evaluates all tangible and intangible assets (except goodwill) for signs of impairment every balance sheet date. Assets that exhibit any sign of impairment will have recoverable amount estimated. If the recoverable amount can not be estimated on an individual basis, the Company will instead estimate recoverable amount for the entire cash-generating unit. For shared assets, amortization is allocated on a reasonable and consistent basis to individual cash-generating units.

Recoverable amount is the higher between “fair value less selling costs” and the “utilization value.” If recoverable amount of an asset or cash-generating unit falls below its book value, the book value of that particular asset/cash-generating unit shall be reduced to the recoverable amount with impairment losses recognized in profit and loss.

When impairment losses are reversed on a later date, the book value of corresponding assets/cash-generating units shall be adjusted upwards to the recoverable amount. However, the increased book value shall not exceed the book value (less amortization or depreciation) of the asset/cash-generating unit before impairment losses were recognized in the first place. Reversal of impairment loss is recognized in profit and loss.

(IX) Financial instruments

Financial assets and financial liabilities are recognized on balance sheet when the Company becomes a party of the contract.

When recognizing financial assets and liabilities at initiation, those that are not designated to be carried at fair value through profit and loss are measured at fair value plus transaction costs that are directly attributable to the acquisition or issuance of financial assets/liabilities. Transaction costs that are directly attributable to the acquisition or issuance of financial assets/liabilities are recognized in profit and loss at the time incurred.

1. Financial assets

Regular transactions of financial asset are recognized on or removed from balance sheet based on principles of trade date accounting.

(1) Measurement categories

The Company held the following types of financial assets: financial assets at fair value through profit and loss, available-for-sale financial assets, and loans and receivables.

A. Financial assets at fair value through profit and loss

Financial assets at fair value through profit and loss mainly comprise financial assets held for trading.

Financial assets at fair value through profit and loss are measured at fair value, with gains and losses (including any dividends or interests generated from the financial asset) recognized in profit and loss. See Note 29 for details regarding the fair value method.

B. Available-for-sale financial assets

Available-for-sale financial assets consist of non-derivative assets that are deemed available for sale, or do not meet the criteria of other classifications such as loans, receivables, held-to-maturity investments or financial assets at fair value through profit and loss.

Available-for-sale financial assets are measured at fair value. For available-for-sale monetary financial assets, book value changes caused by foreign exchange and interest income accounted using the effective interest method and dividends of available-for-sale equity investments are recognized in profit and loss. Other changes in the book value of available-for-sale financial assets are recognized in other comprehensive income, and will be reclassified into profit and loss at the time of disposal or when impairment is confirmed.

Dividends on available-for-sale equity investments are recognized when the Company's entitlement to such proceeds has been established.

Available-for-sale financial assets that are characterized as equity instruments without active market, open quotation and reliable method of fair value assessment, and any derivative derivatives linked to or require delivery of such instruments, are subsequently measured at cost after impairment losses, and presented separately as "Financial assets carried at cost." These financial assets will be remeasured at fair value if fair value can be measured reliably on a later date. Differences between the book value and the fair value are recognized in other comprehensive income, whereas impairment losses are recognized through profit and loss.

#### C. Loans and receivables

Loans and receivables (including cash and cash equivalents, receivables, other receivables, investment in bond without active markets and other financial assets) are measured at cost after amortization and impairment using the effective interest method. This excludes interests arising from short-term receivables that are of immaterial amount.

Cash equivalents include time deposits with less than 3 months until maturity that are highly liquid, readily convertible into defined amounts of cash, and less prone to the risk of fair value changes. Cash equivalents are held for the purpose of meeting the Company's short-term cash commitments.

#### (2) Impairment of financial assets

Except for financial assets at fair value through profit and loss, the Company assesses financial assets for signs of impairment on every balance sheet date. A financial asset is deemed impaired if there is objective evidence to suggest that estimated future cash flow may have been lost due to single or multiple events.

Financial assets that are presented at cost after amortization, such as accounts receivable, will have impairments assessed on a collective basis if no impairment is found on an individual basis. The Company has “The First Insurance Co., Ltd. Asset Assessment, Overdue Loan Collection and Charge Off Procedures” available to assess impairment of receivables. Impairment is identified and recognized only if there is “objective evidence” to show loss of estimated future cash flow since initiation. As a conservative practice, the Company adopts the authority's “Regulations Governing Asset Assessment, Overdue Loan Collection and Charge Off for Insurance Enterprises” as the minimum standard for making statutory provisions.

For financial assets carried at cost after amortization, impairment is recognized as the difference between book value and estimated future cash flows discounted at the asset's initial effective interest rate.

For financial assets carried at cost after amortization, the amount of impairment reduced in subsequent periods can be reversed and recognized in profit and loss against a direct adjustment of cumulative impairments or the provision account, provided that the reduction is objectively believed to have been attributable to events occurred after the impairment was recognized. However, the reversal can not produce a book value that is greater than the amount of cost after amortization (as at the date of reversal) had the financial asset not been impaired in the first place.

For available-for-sale equity instruments, an objective evidence of impairment is one that shows substantial or sustained fall of fair value below cost.

Other objective evidence of impairment to financial assets include: severe financial distress or default (e.g. delay or inability to pay interests or principals owed) involving the issuer/debtor, increased likelihood of the debtor undergoing bankruptcy or financial restructuring, or any financial crisis that may render the financial asset no longer available on the active market.

When an available-for-sale asset is impaired, accumulated losses previously recognized in other comprehensive income are reclassified into profit and loss.

Available-for-sale equity instruments that had impairment losses recognized through profit and loss can not have such losses reversed through profit and loss on a later date. Any recovery of fair value after impairment losses shall be recognized in other comprehensive income. If fair value of an available-for-sale debt instrument increases on a later date and the increase is objectively related to an event subsequent to the recognition of impairment in profit and loss, the Company may reverse previous impairment losses and recognize them through profit and loss.

For financial assets carried at cost, impairment is recognized as the difference between the book value and estimated future cash flows discounted at the prevailing market rate of return of other similar assets. This impairment loss can not be reversed in subsequent periods.

All impairment losses on financial assets are deducted directly from book value, except for receivables where book value is adjusted using a provision account. Receivable balances that are deemed unrecoverable are charged against the provision account. Amounts charged off but recovered in subsequent periods are credited to the allowance account. Changes in the book value of provision account are recognized in profit and loss, except for charge-offs made against unrecoverable accounts receivable.

(3) Removal of financial assets

Financial assets can be removed from balance sheet only if all contractual cash flow entitlements have ended, or if the asset has been transferred with virtually all risks and returns assumed by another party.

When a financial asset is removed, the difference between book value and the sum of consideration received plus any cumulative gains or losses recognized under other comprehensive income is recognized in profit and loss.

2. Financial liabilities

(1) Subsequent measurements

Financial liabilities are carried at cost after amortization using the effective interest method.

(2) Removal of financial liabilities

When a financial liability is removed, the difference between book value and the consideration paid (including any non-cash assets transferred or any additional liabilities borne) is recognized in profit and loss.

(X) Ceded reinsurance

The Company makes reinsurance arrangements in accordance with insurance regulations and as needed for its business activities in order to limit possible losses arising from exposure to certain risks. For ceded insurance coverage, the Company may not deny its obligations to insured parties on the basis that its reinsurers have failed to fulfill their obligations.

The Company recognizes reinsurance premiums expense for ceded reinsurance coverage depending on the nature of reinsurance contract. The financial reports have been prepared after taking into consideration the policy period, which matches premium revenues. Reinsurance premiums expenses are estimated on each balance sheet date using rational and systematic methods. All associated revenues (such as: reinsurance commission revenues) are also recognized during the same period. The Company does not defer gains/losses on reinsurance.

Reinsurance reserve assets include: unearned premium reserve, ceded claim reserve and deficiency reserve for ceded coverage. These reserves are made in accordance with Regulations Governing Reserve Provisioning by Insurance Enterprises and terms of the respective reinsurance contracts, and represent the Company's entitlements over the reinsurers.

The Company assesses reinsurance reserve assets, claims recoverable from reinsurers, and reinsurance accounts receivable balances above on a regular basis for signs of impairment or non-recovery. If there is objective evidence to suggest that the Company may be unable to recover all reinsurance contract assets due to occurrence of an event after initial recognition, the Company will recognize cumulative impairments for the recoverable amount that falls short of the book value of the reinsurance reserve assets, provided that impact to the amounts recoverable from reinsurer due to the above event can be measured reliably. Appropriate amounts of doubtful debt are provided for balances of claims recoverable from reinsurers and reinsurance accounts receivable that are no longer deemed recoverable.

(XI) Acceptance of residual assets and right of subrogation

The Company recognizes entitlement over insurance claims when such claims become certain (high likely inflow of future economic benefits) and the amount of which can be measured reliably.

(XII) Insurance liabilities

The Company provides insurance liabilities for various insurance contracts according to “Regulations Governing Reserve Provisioning by Insurance Enterprises,” “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance,” “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance” and “Regulations for the Management of the Various Reserves for Nuclear Risks Insurance by Non-life Insurance Enterprises.” All insurance liabilities have been verified by FSC-certified actuaries. The basis of provision for various insurance liabilities is explained below:

1. Unearned premium reserve

The Company makes provision of unearned premium reserve for unexpired contracts and existing insurance risks by calculating unexpired risks of each insurance contract. The Company adopts the 24th Method and other methods to provide for and recover unearned premium reserves.

2. Claim reserves

The Company makes claim reserves using actuarial methods based on past experiences and payments. The Company makes two different types of claim reserve: Reported but unpaid claims and Unreported claims. The amount of reserve for Reported but unpaid claims is estimated on a case-by-case basis and provided for different insurance categories.

3. Special claim reserves

There are two types of special claim reserve: “Special claim reserves for major incidents” and “Special claim reserves for change of risk.” Provisions made before January 1, 2011 will continue to be presented as liabilities,



whereas new provisions made on and after January 1, 2011 net of income taxes are presented as special reserve under other equity items. Starting from January 1, 2011, offsets or recoveries can be made to special claim reserves that are presented as liabilities. Once the liability has been depleted, the remainder of the offset/recovery net of income taxes can be charged against special claim reserves that are presented under other equity items.

(1) Special claim reserves for major incidents

Special claim reserves for major incidents are provided using the percentages specified by the competent authority.

Any occurrence of government-announced major incident that causes individual insurance companies to pay retained claims amounting to NT\$30 million across all insurance categories, and the entire non-life insurance industry to pay claims amounting to NT\$2 billion or above across all insurance categories, may be offset against special claim reserves for major incidents.

Insurance companies that have made special claim reserves for major incidents for more than 15 years may devise a reserve recovery system with the involvement of certified actuaries, and implement with the acknowledgment of the competent authority.

(2) Special claim reserves for change of risk

If the balance of actual claim after offsetting against special claim reserves for major incidents of a particular insurance category is lower than expected claims, the Company shall provide special claim reserves for change of risk on the difference according to rules of the competent authority.

If the balance of actual claim after offsetting against special claim reserves for major incidents of a particular insurance category is higher than expected claims, the Company may offset the difference against special claim reserves for change of risk. If there are insufficient special claim reserves for change of risk to offset a particular insurance category, the Company may offset the excess against special claim reserves for change of risk of other insurance categories. The insurance category and amount of offset shall comply with the rules and are subject to acknowledgment of the competent authority.

The Company shall recover amounts of special claim reserves for change of risk that exceed the requirements imposed by the competent authority per insurance category.

4. Deficiency reserve

The Company assesses future possible claims and expenses for each category of unexpired contracts and existing insurance risks. If the estimated claims and expenses exceed unearned premium reserves plus expected premium revenues, a deficiency reserve shall be provided on the difference for that insurance category.

(XIII) Liability adequacy test

On each balance sheet date, the Company follows the practical actuarial principles published by Actuarial Institute of Chinese Taipei to estimate future cash flows of individual insurance contracts. Any shortfall in the book value of recognized insurance liabilities identified from the above is recognized as current expense/loss.

(XIV) Revenue recognition

The Company recognizes revenues according to IAS 18 - "Revenue."

Revenue and acquisition cost of insurance coverage:

For direct written coverage, premium revenues are recognized on all underwritten and modified coverage approved in the current period. For assumed reinsurance coverage, reinsurance premium revenues are recognized based on invoice delivery date. Reinsurance premium revenues accruing as at the balance sheet date are estimated using rational and systematic methods. All associated acquisition costs (e.g.: commission expense, agency charge, fee and reinsurance commission expense) are recognized in the period incurred and not deferred.

The Company makes provision of unearned premium reserve for unexpired contracts and existing insurance risks by calculating unexpired risks of each insurance contract.

Unearned premium reserves on mandatory automobile liabilities insurance are provided according to "Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance."

Unearned premium reserves on residential earthquake insurance are provided according to "Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance."

Unearned premium reserves on nuclear risks insurance are provided according to "Regulations for the Management of the Various Reserves for Nuclear Risks Insurance by Non-life Insurance Enterprises."

Methods for providing unearned premium reserves are determined by actuarial personnel for the various types of insurance coverage, unless otherwise regulated by law (no change can be made without the authority's approval). The amount of unearned premium reserve is subject to verification and certification by actuarial personnel.

Taxes on insurance revenues are recognized on an accrual basis according to the Value-added and Non-value-added Business Tax Act, the Stamp Tax Act and relevant regulations.

(XV) Cost of insurance claims

For direct written coverage, the cost of insurance claims comprises claims payments (including claim-related expenses) incurred and approved in the current period. Amounts that have been ascertained by the claims department but not yet paid by the accounting/finance department and amounts that are not yet ascertained by the claims department are estimated on a case-by-case basis for each insurance category, and recognized as net change in reported but unpaid claim reserves.

For assumed reinsurance coverage, claims payable to reinsurers are recognized based on invoice delivery date. Reinsurance claims payable accruing as at the balance sheet date are estimated using rational and systematic methods, and recognized as net change in claim reserves.

For direct written and assumed reinsurance coverage, the amount of unreported insurance claims is calculated category-by-category based on previous claims and expenses using actuarial methods, and recognized as net change in unreported claim reserves.

With regards to claims recoverable from reinsurers on ceded reinsurance coverage, any claims (including claim-related expenses) received are recognized as claims recovered from reinsurers, whereas unpaid and unreported claims (including claim-related expenses) are recognized as net change in claim reserves.

The Company does not apply discounting when calculating claim reserves.

Claim reserves on mandatory automobile liabilities insurance are provided according to “Regulations for the Management of the Various Reserves for Compulsory Automobile Liability Insurance.”

Claim reserves on residential earthquake insurance are provided according to “Enforcement Rules for the Risk Spreading Mechanism of Residential Earthquake Insurance.”

Claim reserves on nuclear risks insurance are provided according to “Regulations for the Management of the Various Reserves for Nuclear Risks Insurance by Non-life Insurance Enterprises.”

(XVI) Leases

1. Where the Company is the lessor

Proceeds received from operating leases are recognized as income on a straight-line basis over the lease tenor.

2. Where the Company is the lessee

Proceeds paid on operating leases are recognized as expense on a straight-line basis over the lease tenor.

(XVII) Employee benefits

1. Short-term employee benefit

Liabilities associated with short-term employee benefits are measured at non-discounted amount of cash that the Company expects to pay in exchange for employees' service.

2. Retirement benefits

For defined contribution plans, the amount of contributions made to pension funds over the duration of employees' service are recognized as current period expenses.

For defined benefit plans, the cost of benefit (including service cost, net interest and effect of rereasurement) is estimated using the Projected Unit Credit Method. Service costs (including current service costs) and net interests on net defined benefit plan liabilities are recognized as employee welfare expense at the time incurred or whenever the plan is amended, curtailed or

repaid. Effects of remeasurement (including actuarial gains/losses, change in plan asset limits, and return on plan assets net of interest) are recognized under other comprehensive income and added to retained earnings at the time of occurrence. This amount is not reclassified into profit and loss in subsequent periods.

Net defined benefit plan liabilities represent the shortfall of contributions made to the defined benefit plan.

#### (XVIII) Income tax

Income tax expense represents the sum of current income tax and deferred income tax.

##### 1. Current income tax

Current income tax payable is calculated based on taxable income of the current period. The taxable income may differ from pre-tax profit presented in the statement of comprehensive income because some of the gains, expenses and losses are taxable or deductible in other years, while some are tax-exempted or eligible for tax deductions. The Company's current income tax liabilities are calculated using tax rate applicable as at the balance sheet date.

Undistributed earnings are subject to an additional 10% income tax according to the Income Tax Act. Due to uncertainties concerning the distribution of current year's earnings, this additional income tax expense will be recognized in the year when earnings appropriation is resolved during the shareholder meeting.

Adjustments to income taxes reported in previous years are recognized as income tax expenses in the period the adjustment is made.

##### 2. Deferred income tax

Deferred income taxes are tax effects of temporary differences, given rise by the different book value of assets and liabilities presented in the financial statement and those reported for tax filing. Tax impacts arising from taxable temporary differences are recognized as deferred income tax liabilities; deferred income tax assets are recognized under the condition that the Company is very likely to generate taxable income to realize them in the future.

Book value of deferred income tax asset is re-assessed on every balance sheet date. The Company will reduce book value if it is not highly likely to generate enough taxable income to realize part or all of the assets. Amounts that were not initially recognized as deferred income tax assets are also subject to re-assessment on every balance sheet date. These amounts may increase the book value of deferred income tax asset, provided that the Company is highly likely to generate taxable income for full or partial recovery of such asset.

Deferred income tax assets and liabilities are estimated using expected tax rate applicable at the time the liability/asset is expected to be settled/realized. This expected tax rate is determined based on the tax rate and tax laws prevailing as at the balance sheet date. Deferred income tax liabilities and

assets represent the tax impacts of the method by which the Company expects to recover/settle the book value of its assets and liabilities as at the balance sheet date.

3. Current and deferred income tax for the year

Current and deferred income taxes are recognized in profit and loss, except in the case of items that are recognized under other comprehensive income, where current and deferred income taxes are also recognized under other comprehensive income.

(XIX) Coinsurance organization, coinsurance and guarantee fund

1. Coinsurance contract for mandatory automobile liabilities insurance

The Company has signed a “Mandatory Automobile Liabilities Coinsurance Contract” with all peers that have been approved by the competent authority to engage in mandatory automobile liabilities insurance service. The contract requires all underwritten mandatory automobile liabilities insurance coverage to be subject to coinsurance. Violators will be subject to default penalty, and all contract participants have agreed to auditing by representatives of the coinsurance team. Assumed coinsurance coverage is calculated on a pure premium basis, and allocated at the agreed coinsurance percentage. Coinsurance participants may not exist the arrangement unless due to liquidation or business cessation. Participants will automatically exit the coinsurance arrangement if they stop providing automobile liabilities insurance service. In which case, natural expiry shall apply to unexpired liabilities.

2. Coinsurance contract for residential earthquake insurance

The Company and all industry peers approved by the competent authority to engage in residential fire insurance service have been granted membership to Residential Earthquake Insurance Fund (Earthquake Insurance Fund), a coinsurance organization. The members have jointly established a “Residential Earthquake Coinsurance Contract” that requires all underwritten residential earthquake insurance coverage to be subject to coinsurance. All contract participants have agreed to auditing by representatives of the coinsurance team. Assumed coinsurance coverage is calculated on a pure premium basis; participants bear coinsurance liability for the coverage they assume individually, and are not jointly responsible for the liabilities of others. Participants may exit the coinsurance arrangement by notifying the Earthquake Insurance Fund 3 months before commencement of the next policy year. Exited participants will continue to assume existing shared liabilities until the end of the current year, and shared liabilities outstanding thereafter will be transferred to other coinsurance members. Members may notify the Earthquake Insurance Fund to withdraw from coinsurance if dissolved due to business cessation, liquidation, or dismissal; in which case, all assumed coverage remaining in the current year will be transferred to other members of the coinsurance organization starting from the date of cessation/liquidation/dissolution announced by the competent authority. The coinsurance organization will

convene meetings to discuss the method of transfer. For members that withdraw from the coinsurance due to the above reasons, any assumed coverage remaining in the current year will be undertaken by surviving companies.

(XX) Accounting policy of the headquarter and branches

The Company's head office and branches adopt independent accounting practices. Each branch will calculate profit and loss separately and have the results aggregated by the head office for financial statement preparation. Insurance policies are reviewed and underwritten separately by the head office and branches before consolidating at the head office level. The head office's Reinsurance Department then determines the amount of retained and ceded coverage based on terms of the reinsurance contract. The head office retails all premiums received on assumed reinsurance coverage and does not allocate them to branches. The head office also makes overall decisions on the planning and use of available capital.

Provisions for unearned premium reserve, claim reserve, special claim reserve and deficiency reserve are made in aggregate of the head office and branches.

V. Significant accounting judgments, estimations, and major sources of hypotheses of uncertainty

When applying accounting policies, the management is required to make judgments, estimates and assumptions based on historical experience or other relevant factors in situations where information can not be easily obtained from available sources. The actual outcome may differ from initial estimates.

The management will continually review its estimates and basic assumptions. If a revision of accounting estimate affects only the current period, the effect shall be recognized only for the current period. If a revision of accounting estimate affects current and future periods, the effect shall also be recognized for current and future periods.

Insurance liabilities from insurance contracts

Claim reserves arising from insurance contracts are estimated on each balance sheet date according to insurance regulations. These amounts are verified by FSC-certified actuaries, but due to the estimations involved, the actual amount of liability may be higher or lower than the amount estimated.

VI. Cash and cash equivalents

|   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Cash  | \$ 935                   | \$ 1,039                 |
| Bank deposit  |                          |                          |
| Cheque deposit  | 482,051                  | 416,064                  |
| Demand deposit  | 630,807                  | 786,164                  |
| Foreign currency deposit  | 38,381                   | 23,555                   |
| Cash equivalents - (refers to time deposits with an original tenor of 3 months or lesser) | <u>5,000</u>             | <u>5,000</u>             |
|   | <u>\$ 1,157,174</u>      | <u>\$ 1,231,822</u>      |

Foreign currency deposits are placed with domestic banks. As at December 31, 2017 and 2016, the Company held NT\$2,734,384,000 and NT\$2,792,892,000 of time deposit, respectively, that had initial maturity date of more than 3 months (refer to Note 11).

VII. Financial assets at fair value through profit and loss

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| <u>Financial assets held for trading</u> |                          |                          |
| Non-derivative financial assets          |                          |                          |
| - TWSE/TPEX listed shares                | \$ 1,003,933             | \$ 836,201               |
| - Fund beneficiary certificates          | <u>1,717,489</u>         | <u>1,094,130</u>         |
|  | <u>\$ 2,721,422</u>      | <u>\$ 1,930,331</u>      |

VIII. Available-for-sale financial assets

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Domestic investments                     |                          |                          |
| - TWSE/TPEX listed shares                | \$ 171,467               | \$ 225,383               |
| - Fund beneficiary certificates          | 151,050                  | 184,110                  |
| - Government bonds                       | 479,440                  | 470,011                  |
| - Bond investments - bank debentures     | <u>2,045,756</u>         | <u>2,350,513</u>         |
| Subtotal                                 | 2,847,713                | 3,230,017                |
| Less: Amount placed as guarantee deposit | ( <u>472,282</u> )       | ( <u>463,004</u> )       |
|  | <u>\$ 2,375,431</u>      | <u>\$ 2,767,013</u>      |

(I) Information on government bond investments as at the balance sheet date:

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Face value of investment | <u>\$459,000</u>         | <u>\$459,000</u>         |
| Coupon interest rate     | 1.13% ~ 5.00%            | 1.13% ~ 5.00%            |
| Average maturity         | 5.68 year(s)             | 6.68 year(s)             |

(II) Information on bank debenture investments as at the balance sheet date:

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Face value of investment | <u>\$ 2,020,000</u>      | <u>\$ 2,310,000</u>      |
| Effective interest rate  | 2.04% ~ 3.25%            | 2.04% ~ 3.25%            |
| Average maturity         | 2.21 year(s)             | 2.28 year(s)             |

(III) Please refer to Note 17 for the amount of government bonds placed as guarantee deposit for insurance business as at December 31, 2017 and 2016.

(IV) Please refer to Note 29(5) for information on reclassification of financial assets.

IX. Financial assets at cost

|                                   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-----------------------------------|--------------------------|--------------------------|
| Non-listed domestic common shares |                          |                          |
| Sunny Commercial Bank             | <u>\$ 657,412</u>        | <u>\$ 637,895</u>        |

The abovementioned financial assets carried at cost have been presented as available-for-sale financial assets based on applicable classification criteria.

In 2017 and 2016, the Company invested additional 1,952,000 and 5,101,000 shares into Sunny Commercial Bank for a sum of NT\$19,517,000 and NT\$51,013,000, respectively. The Company held a 3.81% equity interest in the investee as at December 31, 2017.

Due to the extensive range of fair value estimates and absence of rational assessment methods, the management was unable to obtain reliable measurement for the fair value of unlisted share investments mentioned above, and therefore presented the investment at cost after impairment loss as at the balance sheet date.

X. Investment in bond without active markets

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Domestic bank debentures | \$ 50,000                | \$ 50,000                |
| Domestic corporate bonds | <u>30,000</u>            | <u>30,000</u>            |
|                          | <u>\$ 80,000</u>         | <u>\$ 80,000</u>         |

Information on domestic bank debenture and corporate bond investments as at the balance sheet date:

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Face value of investment | \$ 80,000                | \$ 80,000                |
| Coupon interest rate     | 3.7% ~ 3.9%              | 3.7% ~ 3.9%              |
| Effective interest rate  | 3.7% ~ 3.9%              | 3.7% ~ 3.9%              |

XI. Other financial assets

|   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| <u>Time deposit with initial maturity of more than 3 months</u> |                          |                          |
| - NTD   | \$ 2,084,000             | \$ 2,281,500             |
| - Foreign currency  | <u>650,384</u>           | <u>511,392</u>           |
|   | <u>\$ 2,734,384</u>      | <u>\$ 2,792,892</u>      |
| Interest rate range - NTD                                       | 0.13% ~ 1.05%            | 0.13% ~ 1.21%            |
| Interest rate range - Foreign currency                          | 1.40% ~ 3.70%            | 0.95% ~ 3.40%            |



XII. Receivables

(I) Details:

|   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| <u>Note receivable - net</u>                  |                          |                          |
| Arising from business activities              | \$ 221,775               | \$ 208,070               |
| Arising from non-business activities          | 271                      | 40                       |
| Less: doubtful debt provision                 | ( <u>3,102</u> )         | ( <u>8,639</u> )         |
|   | <u>\$ 218,944</u>        | <u>\$ 199,471</u>        |
| <br><u>Premiums receivable - net</u>          |                          |                          |
| Premiums receivable                           | \$ 368,833               | \$ 367,729               |
| Less: doubtful debt provision                 | ( <u>43,066</u> )        | ( <u>38,406</u> )        |
|   | <u>\$ 325,767</u>        | <u>\$ 329,323</u>        |
| <br><u>Other Receivable</u>                   |                          |                          |
| Other Receivable                              | \$ 49,429                | \$ 56,107                |
| Less: doubtful debt provision                 | ( <u>247</u> )           | ( <u>23</u> )            |
|   | <u>\$ 49,182</u>         | <u>\$ 56,084</u>         |
| <br>Claims recoverable from reinsurers (Note) | \$ 235,834               | \$ 201,006               |
| Less: doubtful debt provision                 | ( <u>1,179</u> )         | ( <u>1,005</u> )         |
|   | <u>\$ 234,655</u>        | <u>\$ 200,001</u>        |
| <br>Reinsurance accounts receivable (Note)    | \$ 240,048               | \$ 147,506               |
| Less: doubtful debt provision                 | ( <u>1,113</u> )         | ( <u>634</u> )           |
|   | <u>\$ 238,935</u>        | <u>\$ 146,872</u>        |

Note: Presented under reinsurance contract assets. Please refer to Notes 14 and 36(1) for details on insurance contract receivables.

- (II) Impaired receivable balances (notes receivable but unredeemed past the due date, premiums receivable that are overdue for more than 3 months, and claims recoverable from reinsurers and reinsurance accounts receivable that are overdue for more than 9 months) are reclassified as overdue receivables, for which doubtful debt provisions are made based on counterparty's previous payment records, financial position, and estimation of the unrecoverable amount. For other receivable balances, impairment is assessed on a portfolio basis according to the Company's policies, whereas the likelihood of recovery is also subject to regular review according to "Regulations Governing Asset Assessment, Overdue Loan Collection and Charge Off for Insurance Enterprises."

The following is an aging analysis of notes receivable, premiums receivable, claims recoverable from reinsurers and reinsurance accounts receivable prepared in

accordance with “Regulations Governing Asset Assessment, Overdue Loan Collection and Charge Off for Insurance Enterprises”:

Notes receivable

|                            | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------|--------------------------|--------------------------|
| Not yet                    |                          |                          |
| matured/redeemed/collected | \$ 222,029               | \$ 207,404               |
| Returned notes             | <u>17</u>                | <u>706</u>               |
| Total                      | <u>\$ 222,046</u>        | <u>\$ 208,110</u>        |

Premiums receivable

|                   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------|--------------------------|--------------------------|
| 0~90 days         | \$ 290,110               | \$ 283,367               |
| 91 days and above | <u>78,723</u>            | <u>84,362</u>            |
| Total             | <u>\$ 368,833</u>        | <u>\$ 367,729</u>        |

Aging analysis for premiums receivable was prepared based on contract effective date.

Claims recoverable from reinsurers and reinsurance accounts receivable

|                    | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------|--------------------------|--------------------------|
| 0~270 days         | \$ 473,944               | \$ 347,176               |
| 271 days and above | <u>1,938</u>             | <u>1,336</u>             |
| Total              | <u>\$ 475,882</u>        | <u>\$ 348,512</u>        |

Aging analysis for reinsurance accounts receivable was prepared based on bookkeeping date.

(III) Change in doubtful debt provisions:

|   | <u>Impairment losses<br/>assessed on<br/>individual basis</u> | <u>Impairment<br/>losses assessed<br/>on group basis</u> | <u>Total</u>     |
|---|---|--|------------------|
| Balance as at January 1, 2017                           | \$ 37,721   | \$ 10,986  | \$ 48,707        |
| Plus: Bad debt expenses<br>provided in the current year | 4,639   | 898  | 5,537            |
| Less: Actual charge-offs made in<br>the current year    | -   | -  | -                |
| Less: Bad debt expenses reversed<br>in the current year | ( 689)  | ( 4,848)   | ( 5,537)         |
| Balance as at December 31, 2017                         | <u>\$ 41,671</u>  | <u>\$ 7,036</u>  | <u>\$ 48,707</u> |
| Balance as at January 1, 2016                           | \$ 40,991   | \$ 17,033  | \$ 58,024        |
| Plus: Bad debt expenses<br>provided in the current year | 6,062   | 203  | 6,265            |
| Less: Actual charge-offs made in<br>the current year    | ( 9,317)  | -  | ( 9,317)         |
| Less: Bad debt expenses reversed<br>in the current year | ( 15)   | ( 6,250)   | ( 6,265)         |
| Balance as at December 31, 2016                         | <u>\$ 37,721</u>  | <u>\$ 10,986</u>   | <u>\$ 48,707</u> |

Change in doubtful debt provisions by account category:

|  | 2017                |                        |                      |   |                                       |
|--|---------------------|------------------------|----------------------|---|---------------------------------------|
|  | Notes<br>receivable | Premiums<br>receivable | Other<br>receivables | Claims<br>recovered<br>from<br>reinsurers | Reinsurance<br>accounts<br>receivable |
| Opening balance  | \$ 8,639            | \$ 38,406              | \$ 23                | \$ 1,005                                  | \$ 634                                |
| Plus: Bad debt expenses<br>provided in the current<br>year | -                   | 4,660                  | 224                  | 174                                       | 479                                   |
| Less: Bad debt expenses<br>reversed in the current<br>year | ( 5,537 )           | -                      | -                    | -   | -                                     |
| Closing balance  | <u>\$ 3,102</u>     | <u>\$ 43,066</u>       | <u>\$ 247</u>        | <u>\$ 1,179</u>                           | <u>\$ 1,113</u>                       |
|  | 2016                |                        |                      |   |                                       |
|  | Notes<br>receivable | Premiums<br>receivable | Other<br>receivables | Claims<br>recovered<br>from<br>reinsurers | Reinsurance<br>accounts<br>receivable |
| Opening balance  | \$ 13,850           | \$ 33,281              | \$ 12                | \$ 813                                    | \$ 10,068                             |
| Plus: Bad debt expenses<br>provided in the current<br>year | 327                 | 5,735                  | 11                   | 192                                       | -                                     |
| Less: Actual charge-offs<br>made in the current<br>year    | -                   | -                      | -                    | -   | ( 9,317 )                             |
| Less: Bad debt expenses<br>reversed in the current<br>year | ( 5,538 )           | ( 610 )                | -                    | -   | ( 117 )                               |
| Closing balance  | <u>\$ 8,639</u>     | <u>\$ 38,406</u>       | <u>\$ 23</u>         | <u>\$ 1,005</u>                           | <u>\$ 634</u>                         |

Explanation to overdue receivables and doubtful debt provisions:

- Balances of notes receivable and premiums receivable as at December 31, 2017 included NT\$17,000 and NT\$78,723,000 that were overdue, for which the Company had made doubtful debt provisions totaling NT\$17,000 and NT\$41,615,000, respectively. Reinsurance accounts receivable has been assessed for impairment and unrecoverable amounts. The balance includes NT\$1,938,000 of overdue receivables, for which a doubtful debt provision of NT\$39,000 has been made.
- Balances of notes receivable and premiums receivable as at December 31, 2016 included NT\$706,000 and NT\$84,362,000 that were overdue, for which the Company had made doubtful debt provisions totaling NT\$706,000 and NT\$36,989,000, respectively. Reinsurance accounts receivable has been assessed for impairment and unrecoverable amounts. The balance includes NT\$1,366,000 of overdue receivables, for which a doubtful debt provision of NT\$27,000 has been made.

XIII. Investment property

|  | 2017              |                   |                   |
|--|-------------------|-------------------|-------------------|
|  | Land              | Buildings         | Total             |
| <u>Cost</u>                                      |                   |                   |                   |
| Opening balance                                  | \$ 615,081        | \$ 370,844        | \$ 985,925        |
| Reclassified to property,<br>plant and equipment | ( <u>5,962</u> )  | ( <u>6,246</u> )  | ( <u>12,208</u> ) |
| Closing balance                                  | <u>609,119</u>    | <u>364,598</u>    | <u>973,717</u>    |
| <u>Increase from revaluation</u>                 |                   |                   |                   |
| Opening balance                                  | <u>163,480</u>    | -                 | <u>163,480</u>    |
| Closing balance                                  | <u>163,480</u>    | -                 | <u>163,480</u>    |
| <u>Accumulated depreciation</u>                  |                   |                   |                   |
| Opening balance                                  | -                 | 154,095           | 154,095           |
| Depreciation                                     | -                 | 6,938             | 6,938             |
| Reclassified to property,<br>plant and equipment | -                 | ( <u>2,658</u> )  | ( <u>2,658</u> )  |
| Closing balance                                  | -                 | <u>158,375</u>    | <u>158,375</u>    |
| <u>Cumulative impairment</u>                     |                   |                   |                   |
| Opening balance                                  | <u>15,526</u>     | <u>6,172</u>      | <u>21,698</u>     |
| Closing balance                                  | <u>15,526</u>     | <u>6,172</u>      | <u>21,698</u>     |
| Year-end net value                               | <u>\$ 757,073</u> | <u>\$ 200,051</u> | <u>\$ 957,124</u> |

|                                  | 2016              |                   |                   |
|----------------------------------|-------------------|-------------------|-------------------|
|                                  | Land              | Buildings         | Total             |
| <u>Cost</u>                      |                   |                   |                   |
| Opening balance                  | \$ 615,081        | \$ 375,360        | \$ 990,441        |
| Decrease in current year         | -                 | ( <u>4,516</u> )  | ( <u>4,516</u> )  |
| Closing balance                  | <u>615,081</u>    | <u>370,844</u>    | <u>985,925</u>    |
| <u>Increase from revaluation</u> |                   |                   |                   |
| Opening balance                  | <u>163,480</u>    | -                 | <u>163,480</u>    |
| Closing balance                  | <u>163,480</u>    | -                 | <u>163,480</u>    |
| <u>Accumulated depreciation</u>  |                   |                   |                   |
| Opening balance                  | -                 | 151,305           | 151,305           |
| Depreciation                     | -                 | 7,050             | 7,050             |
| Decrease in current year         | -                 | ( <u>4,260</u> )  | ( <u>4,260</u> )  |
| Closing balance                  | -                 | <u>154,095</u>    | <u>154,095</u>    |
| <u>Cumulative impairment</u>     |                   |                   |                   |
| Opening balance                  | <u>15,526</u>     | <u>6,172</u>      | <u>21,698</u>     |
| Closing balance                  | <u>15,526</u>     | <u>6,172</u>      | <u>21,698</u>     |
| Year-end net value               | <u>\$ 763,035</u> | <u>\$ 210,577</u> | <u>\$ 973,612</u> |

Depreciation expenses are provided on investment property on a straight-line basis over the number of useful years shown as follows:

|                             |                |
|-----------------------------|----------------|
| Main structure              | 55 to 60 years |
| Renovation of exterior wall | 41 year(s)     |
| Renovation of interior      | 10 year(s)     |
| Other constructions         | 10 year(s)     |

The Company's investment property as at December 31, 2017 and 2016, amounted to NT\$2,975,463,000 and NT\$2,619,008,000, respectively. Fair value was determined by the management based on actual transaction prices of properties near the invested assets in the one year dating back from the financial reporting date, as published on the website of the Department of Land Administration, Ministry of the Interior. The management had decided to use level 3 fair value input, and take the lowest or a range of prices transacted near the invested properties.

XIV. Reinsurance contract assets

(I) Details:

|                                    | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------------|--------------------------|--------------------------|
| Claims recoverable from reinsurers | \$ 234,655               | \$ 200,001               |
| Reinsurance accounts receivable    | 238,935                  | 146,872                  |
| Reinsurance reserve assets         | <u>1,999,993</u>         | <u>2,411,872</u>         |
|                                    | <u>\$ 2,473,583</u>      | <u>\$ 2,758,745</u>      |

(II) Please refer to Notes 12 and 36(1) for details and changes in the amount of claims recoverable from reinsurers and reinsurance accounts receivable presented above.

(III) Details of reinsurance reserve assets:

|                                       | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------------|--------------------------|--------------------------|
| Ceded unearned premium reserve        | \$ 1,216,881             | \$ 1,260,235             |
| Ceded claim reserve                   | 778,858                  | 1,146,782                |
| Deficiency reserve for ceded coverage | <u>4,254</u>             | <u>4,855</u>             |
|                                       | <u>\$ 1,999,993</u>      | <u>\$ 2,411,872</u>      |

Please refer to Items (2), (3) and (5) in Note 36 - Disclosure of insurance contract-related information for more details on reinsurance reserve assets presented above.

XV. Property, plant, and equipment

|  | 2017                |                   |                     |                   |
|--|---------------------|-------------------|---------------------|-------------------|
|  | Proprietary<br>land | Buildings         | Sundry<br>equipment | Total             |
| <u>Cost</u>                              |                     |                   |                     |                   |
| Opening balance                          | \$ 302,439          | \$ 342,154        | \$ 47,117           | \$ 691,710        |
| Increase in current year                 | -                   | 466               | 4,877               | 5,343             |
| Decrease in current year                 | -                   | ( 7,073 )         | ( 4,959 )           | ( 12,032 )        |
| Reclassified from<br>investment property | <u>5,962</u>        | <u>6,246</u>      | <u>-</u>            | <u>12,208</u>     |
| Closing balance                          | <u>308,401</u>      | <u>341,793</u>    | <u>47,035</u>       | <u>697,229</u>    |
| <u>Increase from<br/>revaluation</u>     |                     |                   |                     |                   |
| Opening balance                          | <u>123,786</u>      | <u>-</u>          | <u>-</u>            | <u>123,786</u>    |
| Closing balance                          | <u>123,786</u>      | <u>-</u>          | <u>-</u>            | <u>123,786</u>    |
| <u>Accumulated<br/>depreciation</u>      |                     |                   |                     |                   |
| Opening balance                          | -                   | 149,985           | 36,733              | 186,718           |
| Depreciation                             | -                   | 7,008             | 3,164               | 10,172            |
| Decrease in current year                 | -                   | ( 6,934 )         | ( 4,661 )           | ( 11,595 )        |
| Reclassified from<br>investment property | <u>-</u>            | <u>2,658</u>      | <u>-</u>            | <u>2,658</u>      |
| Closing balance                          | <u>-</u>            | <u>152,717</u>    | <u>35,236</u>       | <u>187,953</u>    |
| <u>Cumulative impairment</u>             |                     |                   |                     |                   |
| Opening balance                          | <u>4,774</u>        | <u>1,898</u>      | <u>-</u>            | <u>6,672</u>      |
| Closing balance                          | <u>4,774</u>        | <u>1,898</u>      | <u>-</u>            | <u>6,672</u>      |
| Year-end net value                       | <u>\$ 427,413</u>   | <u>\$ 187,178</u> | <u>\$ 11,799</u>    | <u>\$ 626,390</u> |
|  | 2016                |                   |                     |                   |
|  | Proprietary<br>land | Buildings         | Sundry<br>equipment | Total             |
| <u>Cost</u>                              |                     |                   |                     |                   |
| Opening balance                          | \$ 302,439          | \$ 353,275        | \$ 51,356           | \$ 707,070        |
| Increase in current year                 | -                   | -                 | 2,385               | 2,385             |
| Decrease in current year                 | <u>-</u>            | <u>( 11,121 )</u> | <u>( 6,624 )</u>    | <u>( 17,745 )</u> |
| Closing balance                          | <u>302,439</u>      | <u>342,154</u>    | <u>47,117</u>       | <u>691,710</u>    |
| <u>Increase from<br/>revaluation</u>     |                     |                   |                     |                   |
| Opening balance                          | <u>123,786</u>      | <u>-</u>          | <u>-</u>            | <u>123,786</u>    |
| Closing balance                          | <u>123,786</u>      | <u>-</u>          | <u>-</u>            | <u>123,786</u>    |
| <u>Accumulated<br/>depreciation</u>      |                     |                   |                     |                   |
| Opening balance                          | -                   | 153,053           | 39,698              | 192,751           |
| Depreciation                             | -                   | 7,429             | 3,119               | 10,548            |
| Decrease in current year                 | <u>-</u>            | <u>( 10,497 )</u> | <u>( 6,084 )</u>    | <u>( 16,581 )</u> |
| Closing balance                          | <u>-</u>            | <u>149,985</u>    | <u>36,733</u>       | <u>186,718</u>    |
| <u>Cumulative impairment</u>             |                     |                   |                     |                   |
| Opening balance                          | <u>4,774</u>        | <u>1,898</u>      | <u>-</u>            | <u>6,672</u>      |
| Closing balance                          | <u>4,774</u>        | <u>1,898</u>      | <u>-</u>            | <u>6,672</u>      |
| Year-end net value                       | <u>\$ 421,451</u>   | <u>\$ 190,271</u> | <u>\$ 10,384</u>    | <u>\$ 622,106</u> |

Depreciation expenses are provided on property, plant and equipment on a straight-line basis over the number of useful years shown as follows:

|                             |                  |
|-----------------------------|------------------|
| Buildings                   |                  |
| Main structure              |                  |
| - Confined masonry          | 35 year(s)       |
| - Steel-reinforced concrete | 50 to 62 year(s) |
| Renovation of exterior wall | 41 year(s)       |
| Renovation of interior      | 8 to 19 year(s)  |
| Other constructions         | 10 to 25 year(s) |
| Others                      | 15 to 30 year(s) |
| Sundry equipment            | 3 to 15 year(s)  |

Property, plant, and equipment in 2017 and 2016 exclude capitalized interest.

The Company's property, plant, and equipment showed no sign of impairment as at December 31, 2017 and 2016.

XVI. Intangible assets

|  | <u>2017</u>      | <u>2016</u>      |
|--|------------------|------------------|
| <u>Cost</u>                            |                  |                  |
| Opening balance                        | \$ 23,731        | \$ 9,526         |
| Increase in current year               | 4,304            | 14,915           |
| Amounts made redundant in current year | ( 3,074)         | ( 710)           |
| Closing balance                        | <u>24,961</u>    | <u>23,731</u>    |
| <u>Accumulated depreciation</u>        |                  |                  |
| Opening balance                        | 7,984            | 4,656            |
| Amortization expenses                  | 7,440            | 4,038            |
| Amounts made redundant in current year | ( 3,074)         | ( 710)           |
| Closing balance                        | <u>12,350</u>    | <u>7,984</u>     |
| Year-end net value                     | <u>\$ 12,611</u> | <u>\$ 15,747</u> |

The above computer software is amortized on a straight-line basis over 3 years. The Company's intangible assets showed no sign of impairment as at December 31, 2017 and 2016.

XVII. Guarantee deposits paid

|                                 | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------------|--------------------------|--------------------------|
| Guarantee deposit for insurance |                          |                          |
| business - Government bonds     | \$ 472,282               | \$ 463,004               |
| Others                          | <u>54,989</u>            | <u>55,743</u>            |
|                                 | <u>\$ 527,271</u>        | <u>\$ 518,747</u>        |

According to Articles 141 and 142 of the Insurance Act, insurance enterprises are required to place guarantee deposits amounting to 15% of paid-up capital with the treasury. This guarantee deposit will not be refunded unless the insurance enterprise ceases business operations and completes liquidation. The Company had placed the guarantee deposit in the form of government bonds.

XVIII. Other assets - others

|                            | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------|--------------------------|--------------------------|
| Prepayments                | \$ 10,688                | \$ 9,566                 |
| Prepaid equipment purchase | 299                      | -                        |
| Others                     | <u>4,204</u>             | <u>2,915</u>             |
|                            | <u>\$ 15,191</u>         | <u>\$ 12,481</u>         |

XIX. Other payables

|                           | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---------------------------|--------------------------|--------------------------|
| Salary and bonus payable  | \$ 84,923                | \$ 77,810                |
| Share settlements payable | 25,689                   | 10,388                   |
| Leave encashment payable  | 817                      | 821                      |
| Others                    | <u>50,659</u>            | <u>75,815</u>            |
|                           | <u>\$ 162,088</u>        | <u>\$ 164,834</u>        |

XX. Insurance liabilities

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Unearned premium reserve | \$ 3,917,841             | \$ 3,833,716             |
| Claim reserve            | 2,423,547                | 2,863,475                |
| Special claim reserve    | 1,750,502                | 1,779,064                |
| Deficiency reserve       | <u>19,502</u>            | <u>20,419</u>            |
|                          | <u>\$ 8,111,392</u>      | <u>\$ 8,496,674</u>      |

Please refer to Items (2) to (5) in Note 36 - Disclosure of insurance contract-related information for more details on insurance liabilities presented above.

XXI. Retirement benefit plan

(I) Defined contribution plan

The Company is subject to the pension scheme introduced under the “Labor Pension Act.” It is a government-managed defined contribution plan, for which the Company contributes an amount equal to 6% of employees' monthly salary into their individual pension accounts held under the Bureau of Labor Insurance.

Please see Note 24(1) for details on pension costs recognized in 2017 and 2016.

(II) Defined benefit plan

The Company is subject to the pension scheme introduced under the “Labor Standards Act,” which is a government-managed defined benefit plan. Under this plan, employees' pension benefits are calculated based on their years of service and 6-month average salary leading up to their retirement. The Company makes monthly pension contributions equivalent to 6% of employees' monthly salaries into an account held under Bank of Taiwan in the Labor Pension Supervisory Committee's name. In the event that the account is estimated to be short of balance to pay workers who are expected to meet their retirement criteria in the following year, the Company will reimburse the shortfall by no later than the end of March next year. The account



is managed by Bureau of Labor Funds, Ministry of Labor. The Company has no influence whatsoever over the investment strategy.

Please see Note 24(1) for details on pension costs recognized in 2017 and 2016.

The following amounts relating to the defined benefit plan have been recognized on the balance sheet:

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Present value of defined benefit obligations | \$ 590,862               | \$ 594,854               |
| Fair value of plan assets                    | ( <u>384,852</u> )       | ( <u>379,827</u> )       |
| Net defined benefit liabilities              | <u>\$ 206,010</u>        | <u>\$ 215,027</u>        |

Details of changes in net defined benefit liabilities (assets):

|  | Present value<br>of defined<br>benefit<br>obligations | Fair value of<br>plan assets | Net defined<br>benefit<br>liabilities<br>(assets) |
|--|---|------------------------------|---|
| January 1, 2017  | <u>\$ 594,854</u>                                     | ( <u>\$ 379,827</u> )        | <u>\$ 215,027</u>                                 |
| Service costs  |   |                              |   |
| Current period service costs                                       | 13,358  | -                            | 13,358  |
| Interest expense (income)  | <u>6,649</u>  | ( <u>4,361</u> )             | <u>2,288</u>                                      |
| Recognized through profit and loss                                 | <u>20,007</u>   | ( <u>4,361</u> )             | <u>15,646</u>                                     |
| Remeasurement  |   |                              |   |
| Return on plan assets<br>(excluding discounted<br>interest income) | -   | 695                          | 695   |
| Actuarial loss - change in<br>demographic<br>assumption            | 13,152  | -                            | 13,152  |
| Actuarial gain -<br>adjustment based on<br>past experience         | ( <u>5,703</u> )                                      | -                            | ( <u>5,703</u> )                                  |
| Recognized as other<br>comprehensive income<br>(Note)              | <u>7,449</u>  | <u>695</u>                   | <u>8,144</u>                                      |
| Employer's contribution  | <u>-</u>  | ( <u>17,781</u> )            | ( <u>17,781</u> )                                 |

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|  | Present value<br>of defined<br>benefit<br>obligations | Fair value of<br>plan assets | Net defined<br>benefit<br>liabilities<br>(assets) |
|--|---|------------------------------|---|
| Amount paid with plan assets                                       | ( <u>\$ 16,422</u> )                                  | <u>\$ 16,422</u>             | <u>\$ -</u>                                       |
| Amount paid on the Company's<br>account                            | ( <u>15,026</u> )                                     | -                            | ( <u>15,026</u> )                                 |
| December 31, 2017  | <u>\$ 590,862</u>                                     | ( <u>\$ 384,852</u> )        | <u>\$ 206,010</u>                                 |
| January 1, 2016  | <u>\$ 563,288</u>                                     | ( <u>\$ 359,647</u> )        | <u>\$ 203,641</u>                                 |
| Service costs  |   |                              |   |
| Current period service costs                                       | 14,918  | -                            | 14,918  |
| Interest expense (income)  | <u>7,745</u>  | ( <u>5,142</u> )             | <u>2,603</u>                                      |
| Recognized through profit and<br>loss                              | <u>22,663</u>   | ( <u>5,142</u> )             | <u>17,521</u>                                     |
| Remeasurement  |   |                              |   |
| Return on plan assets<br>(excluding discounted<br>interest income) | -   | 2,542                        | 2,542   |
| Actuarial loss - change in<br>demographic<br>assumption            | 8,272   | -                            | 8,272   |
| Actuarial loss - change in<br>financial assumption                 | 14,179  | -                            | 14,179  |
| Actuarial gain -<br>adjustment based on<br>past experience         | ( <u>4,205</u> )                                      | -                            | ( <u>4,205</u> )                                  |
| Recognized as other<br>comprehensive income<br>(Note)              | <u>18,246</u>   | <u>2,542</u>                 | <u>20,788</u>                                     |
| Employer's contribution  | -   | ( <u>26,923</u> )            | ( <u>26,923</u> )                                 |
| Amount paid with plan assets                                       | ( <u>9,343</u> )                                      | <u>9,343</u>                 | -   |
| December 31, 2016  | <u>\$ 594,854</u>                                     | ( <u>\$ 379,827</u> )        | <u>\$ 215,027</u>                                 |

Note: After-tax amounts recognized through other comprehensive income were NT\$6,759,000 in 2017 and NT\$17,254,000 in 2016.

The Company is exposed to the following risks due to adoption of pension scheme introduced under the "Labor Standards Act":

1. Investment risks: The Bureau of Labor Funds, Ministry of Labor manages the labor pension fund either on its own or by engaging outside parties. The labor pension fund is being allocated into equity securities, debt securities and bank deposits local and abroad; however, the Company estimates return on plan assets at a rate no lesser than the 2-year time deposit rate offered by local banks.

2. Interest rate risk: A decrease in government/corporate bond yield would increase the present value of defined benefit obligations while at the same time increase the return of plan assets invested in debt instruments. The overall effect on net defined benefit obligation is partially offset.
3. Salary risk: The present value of defined benefit obligations is calculated by taking into consideration the participants' future salary levels. An increase in salary level would raise the present value of defined benefit obligations.

The present value of defined benefit obligations is determined based on actuarial estimates made by certified actuaries. Below are the main assumptions used on the date of measurement:

|                                     | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------------------------|--------------------------|--------------------------|
| Discount rate                       | 1.125%                   | 1.125%                   |
| Long-term average salary adjustment | 2.000%                   | 2.000%                   |

A reasonable change in the main actuarial assumption would increase (decrease) the present value of defined benefit obligations by the following amounts, provided that all other assumptions remain unchanged:

|                          | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--------------------------|--------------------------|--------------------------|
| Discount rate            |                          |                          |
| 0.25% increase           | (\$ 14,072)              | (\$ 14,384)              |
| 0.25% decrease           | <u>\$ 14,589</u>         | <u>\$ 14,916</u>         |
| Expected salary increase |                          |                          |
| 0.25% increase           | <u>\$ 14,201</u>         | <u>\$ 14,518</u>         |
| 0.25% decrease           | (\$ 13,770)              | (\$ 14,072)              |

The sensitivity analysis above was prepared by changing one actuarial assumption while holding other actuarial assumptions unchanged. Changes in the present value of defined benefit obligations are also measured using the Projected Unit Credit Method. Methodology and assumption of current period's sensitivity analysis are consistent and unchanged compared to those of the previous period.

|   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Expected contribution to plan assets in the next year | <u>\$ 17,146</u>         | <u>\$ 17,144</u>         |
| Weighted average duration of defined benefit plan     | 9.7 year(s)              | 9.9 year(s)              |

XXII. Other liabilities - others

|                            | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|----------------------------|--------------------------|--------------------------|
| Temporary receipt          | \$ 82,725                | \$ 51,139                |
| Amount received in advance | <u>1,200</u>             | <u>1,200</u>             |
|                            | <u>\$ 83,925</u>         | <u>\$ 52,339</u>         |

XXIII. Equity

|                   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-------------------|--------------------------|--------------------------|
| Share capital     | \$ 3,011,638             | \$ 3,011,638             |
| Retained Earnings | 2,660,677                | 2,402,882                |
| Other Equity      | <u>26,163</u>            | <u>( 40,658 )</u>        |
|                   | <u>\$ 5,698,478</u>      | <u>\$ 5,373,862</u>      |

(I) Share capital  
Common shares

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Authorized shares (thousands)                  | <u>301,163.8</u>         | <u>301,163.8</u>         |
| Authorized capital                             | <u>\$ 3,011,638</u>      | <u>\$ 3,011,638</u>      |
| Shares issued and fully paid up<br>(thousands) | <u>301,163.8</u>         | <u>301,163.8</u>         |
| Issued share capital                           | <u>\$ 3,011,638</u>      | <u>\$ 3,011,638</u>      |

All issued common shares have a face value of NT\$10 per share. Each share is entitled to one voting right and the right to receive dividends.

(II) Retained earnings and dividend policy

Amendments of the Company Act dated May 2015 had made dividends and profit sharing exclusive to shareholders, and rendered employees ineligible to share the Company's earnings. During the annual general meeting held on June 24, 2016, a resolution was passed to amend the Company's earnings distribution policy and introduce new policies for the distribution of employee and director remuneration in the Articles of Incorporation. Please refer to Note 24(1) - Employee welfare expenses.

According to the earnings appropriation policy of the amended Articles of Incorporation: Annual surpluses concluded by the Company are first subject to taxation and reimbursement of previous losses, followed by a 20% provision or reversal of special reserve as required by the authority. The Company may retain an appropriate amount of earnings before distributing the remainder to shareholders as dividends.

In addition to complying with requirements of the Insurance Act (see Note 28), the Company's dividend decisions involve several factors including the current business environment and growth stage, its future capital requirements and long-term financial plan, and shareholders' needs for cash flow. Payment of cash dividends shall amount to no lesser than 10% of total dividends.

The Company shall continue providing for legal reserve until the balance equals its paid-up capital. Legal reserves can be taken to offset previous losses. The Company is permitted under Article 241 of the Company Act to distribute legal reserves that it had provided according to Article 145-1 of the Insurance Act back to shareholders at the existing shareholding percentage, when the Company has no cumulative losses outstanding. To do so, the Company is required to present

documentary proof of its financial position and seek permission from the competent authority before a shareholder meeting in the manners outlined in Letter No. Jin-Guan-Bao-Cai-10202501991 dated February 8, 2013.

Provision and reversal of special reserves are performed in accordance with Letter No. Jin-Guan-Bao-Cai-10102508861, Letter No. Jin-Guan-Bao-Cai-10502066461, and “Q&A on Special Reserves Treatment after IFRSs Adoption” issued by the authority. If contra equity items are reversed on a later date, the Company may also reverse a matching amount from its special reserves.

Except for shareholders who are considered non-residents of The Republic of China, all other shareholders are entitled to receive imputation credits on earnings distributed to them, which is calculated using imputation ratio as at the date of dividend allocation.

The following are details of the 2016 and 2015 earnings appropriation plans resolved during annual general meetings held on June 28, 2017 and June 24, 2016, respectively:

|                          | <u>Earnings appropriation plan</u> |             | <u>Dividends per share (NT\$)</u> |             |
|--------------------------|------------------------------------|-------------|-----------------------------------|-------------|
|                          | <u>2016</u>                        | <u>2015</u> | <u>2016</u>                       | <u>2015</u> |
| Legal reserve            | \$ 86,202                          | \$ 33,731   |                                   |             |
| Special reserve (Note 1) | 143,585                            | 166,417     |                                   |             |
| Special reserve (Note 2) | 2,399                              | -           |                                   |             |
| Dividends                | 195,756                            | -           | \$ 0.65                           | \$ -        |

Note 1: According to “Regulations Governing Reserve Provisioning by Insurance Enterprises,” insurance enterprises are required to make new provisions of special claim reserves for major incidents and change of risk to the special reserve at the end of each year, starting from January 1, 2011. Provision of this special reserve had already been made on December 31, 2016.

Note 2: Represents special reserve provided for FinTech development according to Letter No. Jin-Guan-Bao-Cai-10502066461 issued by the authority.

Earnings appropriation plan for 2017 was approved under board of directors resolution dated March 28, 2018, as follows:

|                          | <u>Earnings appropriation plan</u> | <u>Dividends per share (NT\$)</u> |
|--------------------------|------------------------------------|-----------------------------------|
| Legal reserve            | \$ 91,323                          | \$ -                              |
| Special reserve (Note 1) | 180,789                            | -                                 |
| Special reserve (Note 2) | 2,008                              | -                                 |
| Dividends                | 180,698                            | 0.60                              |

Note 1: The Company has been making NT\$180,789,000 of new provisions to special claim reserves for major incidents and change of risk on a yearly basis since January 1, 2011 according to “Regulations Governing Reserve Provisioning by Insurance Enterprises.” Provision of this special reserve had

already been made on December 31, 2017 in compliance with the above policy.

Note 2: Represents special reserve provided for FinTech development according to Letter No. Jin-Guan-Bao-Cai-10502066461 issued by the authority.

(III) Special reserve (including provision of special reserve required for first-time adoption of IFRSs)

1. Details of special reserve made for first-time adoption of IFRSs:

|                 | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|-----------------|--------------------------|--------------------------|
| Special reserve | <u>\$ 51,849</u>         | <u>\$ 51,849</u>         |

Due to insufficient increase in retained earnings from first-time adoption of IFRSs, the Company had provided special reserve only for the increase in retained earnings was caused by the adoption of IFRSs, which was NT\$51,849,000.

This special reserve can be reversed proportionally back into retained earnings and distributed to shareholders when the assets are used, disposed or reclassified on a later date. Special reserves provided during first-time adoption of IFRSs can be used to offset losses in subsequent years. If the Company makes earnings in subsequent years at a time when the initial reason for providing special reserves no longer exists, the Company shall make up for the required amount of special reserve before distributing earnings.

In order to support development of financial technologies and protect the interests of employees, the Company is required to make provisions totaling 0.5% to 1% of after-tax net income to special reserve when distributing earnings between 2016 and 2018. Starting from 2017, the Company may reverse the above special reserve for amounts incurred on the transfer or reassignment of employees that are related to development of financial technology.

2. Change of special reserve balance in 2017 and 2016 is explained below:

|                                   | <u>Special reserve</u> | <u>Financial<br/>technology</u> | <u>Provision for<br/>first-time<br/>adoption of<br/>IFRSs</u> | <u>Total</u>        |
|-----------------------------------|------------------------|---------------------------------|---|---------------------|
| <u>2017</u>                       |                        |                                 |   |                     |
| Opening balance                   | \$ 1,084,745           | \$ -                            | \$ 51,849   | \$ 1,136,594        |
| Provisions in the<br>current year | <u>180,789</u>         | <u>2,399</u>                    | <u>-</u>  | <u>183,188</u>      |
| Closing balance                   | <u>\$ 1,265,534</u>    | <u>\$ 2,399</u>                 | <u>\$ 51,849</u>  | <u>\$ 1,319,782</u> |
| <u>2016</u>                       |                        |                                 |   |                     |
| Opening balance                   | \$ 941,160             | \$ -                            | \$ 51,849   | \$ 993,009          |
| Provisions in the<br>current year | <u>143,585</u>         | <u>-</u>                        | <u>-</u>  | <u>143,585</u>      |
| Closing balance                   | <u>\$ 1,084,745</u>    | <u>\$ -</u>                     | <u>\$ 51,849</u>  | <u>\$ 1,136,594</u> |

(IV) Other equity items

Unrealized gains/losses on available-for-sale financial assets

|  | <u>2017</u>      | <u>2016</u>        |
|--|------------------|--------------------|
| Opening balance  | (\$ 40,658)      | (\$ 46,508)        |
| Unrealized gains/losses on<br>available-for-sale financial<br>assets | <u>66,821</u>    | <u>5,850</u>       |
| Closing balance  | <u>\$ 26,163</u> | <u>(\$ 40,658)</u> |

Unrealized gains/losses on available-for-sale financial assets represent cumulative gains and losses measured at fair value. They are recognized through other comprehensive income, and the balance is presented net of reclassifications into profit and loss that are due to disposal or impairment of the underlying asset.

XXIV. Net income from continuing operations

Breakdown of net income from continuing operations

(I) Employee welfare expenses

|                                    | <u>2017</u>                        |                                       |                   | <u>2016</u>                        |                                       |                   |
|------------------------------------|------------------------------------|---------------------------------------|-------------------|------------------------------------|---------------------------------------|-------------------|
|                                    | Classified as<br>operating<br>cost | Classified as<br>operating<br>expense | Total             | Classified as<br>operating<br>cost | Classified as<br>operating<br>expense | Total             |
| Employee welfare<br>expenses       |                                    |                                       |                   |                                    |                                       |                   |
| Salary                             | \$ -                               | \$ 538,824                            | \$ 538,824        | \$ -                               | \$ 516,150                            | \$ 516,150        |
| Labor/health<br>insurance premium  | -                                  | 55,841                                | 55,841            | -                                  | 53,357                                | 53,357            |
| Pension expense                    | -                                  | 34,227                                | 34,227            | -                                  | 36,089                                | 36,089            |
| Other employee<br>welfare expenses | -                                  | <u>361,774</u>                        | <u>361,774</u>    | -                                  | <u>365,779</u>                        | <u>365,779</u>    |
|                                    | <u>\$ -</u>                        | <u>\$ 990,666</u>                     | <u>\$ 990,666</u> | <u>\$ -</u>                        | <u>\$ 971,375</u>                     | <u>\$ 971,375</u> |

|                                | <u>2017</u>      | <u>2016</u>      |
|--------------------------------|------------------|------------------|
| Retirement benefits            |                  |                  |
| Defined contribution plan      | \$ 18,581        | \$ 18,568        |
| Defined benefit plan (Note 21) | <u>15,646</u>    | <u>17,521</u>    |
|                                | <u>\$ 34,227</u> | <u>\$ 36,089</u> |

As at December 31, 2017 and 2015, the Company employed a total of 855 and 832 employees, respectively.

Following the amendment of the Company Act dated May 2015 and amendment of the Articles of Incorporation during the shareholder meeting held in June 2016, the Company provides for employee remuneration at no lesser than 1% of pre-tax profit and director remuneration at no higher than 0.6% of pre-tax profit. However, earnings must first be taken to offset cumulative losses, if any, before the remainder is distributed as employee and director remuneration in the above percentages. The Company had estimated employee remuneration at NT\$5,202,000 and director remuneration at NT\$3,121,000 for 2017 by applying 1% and 0.6%, respectively, to the abovementioned pre-tax profit after reimbursing NT\$3,694,000 in losses (calculation: opening undistributed earnings - NT\$287,422,000 minus 2016 provision for legal reserve - NT\$86,202,000 minus provision for FinTech special

reserve - NT\$2,399,000 minus cash dividends NT\$195,756,000 and minus loss on 2017 remeasurement of defined benefit plan - NT\$6,759,000). Employee remuneration totaling NT\$5,239,000 and director remuneration totaling NT\$3,143,000 were estimated for 2016 by applying 1% and 0.6%, respectively, to the abovementioned pre-tax profit after reimbursing NT\$31,494,000 in losses (calculation: opening undistributed earnings - NT\$2,237,000 minus 2015 provision for legal reserve - NT\$33,731,000 and minus loss on remeasurement of defined benefit plan - NT\$17,254,000). The 2017 and 2016 employee/director remuneration were resolved in board of directors meetings dated March 28, 2018 and March 27, 2017, respectively. Details are as follows:

Estimated percentage

|                       | 2017 | 2016 |
|-----------------------|------|------|
| Employee remuneration | 1%   | 1%   |
| Director remuneration | 0.6% | 0.6% |

Amount

|                       | 2017     |        | 2016     |        |
|-----------------------|----------|--------|----------|--------|
|                       | Cash     | Shares | Cash     | Shares |
| Employee remuneration | \$ 5,202 | \$ -   | \$ 5,239 | \$ -   |
| Director remuneration | 3,121    | -      | 3,143    | -      |

If the amount changes after the financial statements are approved and announced to the public, the difference will be treated as a change in accounting estimate and recognized as a gain or loss in the following year.

2017 and 2016 employee/director remuneration were resolved during board of directors meetings held on March 28, 2018 and March 27, 2017, respectively. The amounts resolved were indifferent from the amounts of employee and director remuneration estimated for the 2017 and 2016 financial reports.

Please visit “Market Observation Post System” for more information regarding employee/director/supervisor remuneration resolved during the Company's board of director meetings in 2018 and 2017.



|       |   |                      |                      |
|-------|---|----------------------|----------------------|
| (II)  | Depreciation and amortization                         |                      |                      |
|       |   | <u>2017</u>          | <u>2016</u>          |
|       | Property, Plant and Equipment                         | \$ 10,172            | \$ 10,548            |
|       | Investment Property                                   | 6,938                | 7,050                |
|       | Intangible Assets                                     | <u>7,440</u>         | <u>4,038</u>         |
|       |   | <u>\$ 24,550</u>     | <u>\$ 21,636</u>     |
|       | Depreciation and amortization<br>expenses by function |                      |                      |
|       | Depreciation (classified<br>as operating expenses)    | \$ 10,172            | \$ 10,548            |
|       | Depreciation (classified<br>as operating costs)       | 6,938                | 7,050                |
|       | Amortization (classified<br>as operating expenses)    | <u>7,440</u>         | <u>4,038</u>         |
|       |   | <u>\$ 24,550</u>     | <u>\$ 21,636</u>     |
| (III) | Gain/loss on investment property                      |                      |                      |
|       |   | <u>2017</u>          | <u>2016</u>          |
|       | Rental income   | \$ 69,347            | \$ 69,282            |
|       | Direct expenses associated with<br>rental income      | ( <u>14,728</u> )    | ( <u>15,871</u> )    |
|       |   | <u>\$ 54,619</u>     | <u>\$ 53,411</u>     |
| (IV)  | Gain/loss on foreign currency exchange                |                      |                      |
|       |   | <u>2017</u>          | <u>2016</u>          |
|       | Total gain on foreign exchange                        | \$ 18,864            | \$ 30,287            |
|       | Total loss on foreign exchange                        | ( <u>60,711</u> )    | ( <u>47,090</u> )    |
|       | Net gain (loss)                                       | ( <u>\$ 41,847</u> ) | ( <u>\$ 16,803</u> ) |
|       | Total gain/loss on foreign<br>exchange                |                      |                      |
|       | Gain (loss) on exchange -<br>investment               | ( \$ 34,410 )        | ( \$ 10,919 )        |
|       | Gain (loss) on exchange -<br>non-investment           | ( <u>7,437</u> )     | ( <u>5,884</u> )     |
|       |   | <u>( \$ 41,847 )</u> | <u>( \$ 16,803 )</u> |

XXV. Income tax expense for continuing operations

(I) Main composition of income tax expense recognized in profit and loss

|   | <u>2017</u>      | <u>2016</u>      |
|---|------------------|------------------|
| Current income tax                                  |                  |                  |
| Incurred in the current year                        | \$ 61,119        | \$ 70,418        |
| Adjustment of previous<br>year figures              | 14               | 11,677           |
| Deferred income tax                                 |                  |                  |
| Incurred in the current year                        | ( <u>5,909</u> ) | <u>2,405</u>     |
| Income tax expense recognized<br>in profit and loss | <u>\$ 55,224</u> | <u>\$ 84,500</u> |

Reconciliation of accounting income and income tax expense:

|  | <u>2017</u>       | <u>2016</u>       |
|--|-------------------|-------------------|
| Pre-tax profit from continuing<br>operations   | <u>\$ 515,534</u> | <u>\$ 564,255</u> |
| Income tax expense calculated<br>by applying statutory tax rate<br>to pre-tax profit (17%) | \$ 87,641         | \$ 95,923         |
| Tax impact of non-deductible<br>expenses and losses  | -                 | 1,180             |
| Unrealized tax-exempt benefits   | ( 4,895 )         | ( 12,716 )        |
| Tax-exempt income  | ( 27,843 )        | ( 11,564 )        |
| Additional tax on undistributed<br>earnings  | 307               | -                 |
| Adjustments to income tax<br>recognized in previous years                                  | <u>14</u>         | <u>11,677</u>     |
| Income tax expense recognized<br>in profit and loss  | <u>\$ 55,224</u>  | <u>\$ 84,500</u>  |

Following the amendment of Income Tax Act by the President of the Republic of China in February 2018, the business income tax rate was adjusted from 17% to 20%, and will take effect starting from 2018. Meanwhile, the applicable tax rate for 2018 undistributed earnings will be reduced from 10% to 5%. The amount of deferred income tax assets recognized as at December 31, 2017 is expected to increase by NT\$10,179,000 due to the tax rate adjustment.

(II) Income tax recognized under other comprehensive income

|  | <u>2017</u>     | <u>2016</u>     |
|--|-----------------|-----------------|
| Deferred income tax  |                 |                 |
| Incurred in current year -<br>Actuarial gain (loss) on<br>remeasurement of<br>defined benefit plan | <u>\$ 1,385</u> | <u>\$ 3,534</u> |

(III) Deferred income tax assets and liabilities

Below are changes in deferred income tax assets and liabilities:

2017

|                                | Opening<br>balance | Recognized<br>through profit<br>and loss | Recognized<br>as other<br>comprehensiv<br>e income | Closing<br>balance |
|--------------------------------|--------------------|--|--|--------------------|
| <u>Deferred Income Tax</u>     |                    |  |  |                    |
| <u>Liabilities</u>             |                    |  |  |                    |
| Assets carried at cost         | \$ 4,823           | \$ -                                     | \$ -   | \$ 4,823           |
| Defined benefit plan           | 38,117             | ( 1,368 )                                | 1,385  | 38,134             |
| Leave encashment payable       | 139                | ( 1 )                                    | -  | 138                |
| Unrealized loss on<br>exchange | 600                | 7,520                                    | -  | 8,120              |
| Doubtful debt provision        | <u>6,710</u>       | <u>( 242 )</u>                           | <u>-</u>   | <u>6,468</u>       |
|                                | <u>\$ 50,389</u>   | <u>\$ 5,909</u>                          | <u>\$ 1,385</u>                                    | <u>\$ 57,683</u>   |

|                            |                  |             |             |                  |
|----------------------------|------------------|-------------|-------------|------------------|
| <u>Deferred income tax</u> |                  |             |             |                  |
| <u>liabilities</u>         |                  |             |             |                  |
| Land value increment tax   | <u>\$ 92,934</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 92,934</u> |

2016

|                                | Opening<br>balance | Recognized<br>through profit<br>and loss | Recognized<br>as other<br>comprehensiv<br>e income | Closing<br>balance |
|--------------------------------|--------------------|--|--|--------------------|
| <u>Deferred Income Tax</u>     |                    |  |  |                    |
| <u>Liabilities</u>             |                    |  |  |                    |
| Assets carried at cost         | \$ 4,823           | \$ -                                     | \$ -   | \$ 4,823           |
| Defined benefit plan           | 36,181             | ( 1,598 )                                | 3,534  | 38,117             |
| Leave encashment payable       | 161                | ( 22 )                                   | -  | 139                |
| Unrealized loss on<br>exchange | -                  | 600                                      | -  | 600                |
| Doubtful debt provision        | <u>8,095</u>       | <u>( 1,385 )</u>                         | <u>-</u>   | <u>6,710</u>       |
|                                | <u>\$ 49,260</u>   | <u>( \$ 2,405 )</u>                      | <u>\$ 3,534</u>                                    | <u>\$ 50,389</u>   |

|                            |                  |             |             |                  |
|----------------------------|------------------|-------------|-------------|------------------|
| <u>Deferred income tax</u> |                  |             |             |                  |
| <u>liabilities</u>         |                  |             |             |                  |
| Land value increment tax   | <u>\$ 92,934</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 92,934</u> |

|      |                                      |                                 |                          |
|------|--------------------------------------|---------------------------------|--------------------------|
| (IV) | Disclosure related to imputation tax | <u>December 31, 2017</u>        | <u>December 31, 2016</u> |
|      | Undistributed earnings               |                                 |                          |
|      | 1998 and after                       | \$ <u>          -</u><br>(Note) | \$ <u>287,422</u>        |
|      | Shareholders' imputation credit      |                                 |                          |
|      | balance                              | \$ <u>          -</u><br>(Note) | \$ <u>310,525</u>        |
|      |                                      | <u>2017</u>                     | <u>2016</u>              |
|      | Percentage of tax credit             |                                 |                          |
|      | applicable to earnings               |                                 |                          |
|      | distribution                         | (Note)                          | 20.48%                   |

Note: Amendments to the Income Tax Act, which took effect since February 2018, had abolished the imputation credit system. As a result, information presented for 2017 is no longer applicable.

Since January 1, 2015, domestic natural-person shareholders were permitted to use "half" of the imputation credits they receive from dividends to offset individual income tax.

(V) Assessment of income tax return

The Company's profit-seeking business income tax filings have been certified by the tax authority up till 2015. All differences between the certified amount and the reported amount have been properly reconciled.

XXVI. Earnings per share

Earnings and the number of weighted average common shares used for calculating earnings per share are explained below:

Current net income

|  |                   |                   |
|--|-------------------|-------------------|
|  | <u>2017</u>       | <u>2016</u>       |
| Net income used for calculating earnings per share | \$ <u>460,310</u> | \$ <u>479,755</u> |

Shares

|  |                |                |
|--|----------------|----------------|
|  | <u>2017</u>    | <u>2016</u>    |
| Weighted average common shares used for calculating basic earnings per share   | 301,164        | 301,164        |
| Dilutive effect of potential common shares:                                    |                |                |
| Employee remuneration  | <u>267</u>     | <u>246</u>     |
| Weighted average common shares used for calculating diluted earnings per share | <u>301,431</u> | <u>301,410</u> |

If the Company has the option to distribute employee remuneration either in cash or in shares, then the calculation of diluted earnings per share shall be made by assuming full share-based payment. In which case, the number of potential common shares is added to the calculation of weighted-average outstanding shares as soon as they become dilutive, and this is the basis used for calculating diluted earnings per share. Dilutive effects of potential common shares will continue to be taken into account when calculating diluted EPS for next year's decision of share-based employee remuneration.

XXVII. Operating lease agreement

(I) Where the Company is the lessee

Operating leases of business premise have a duration between 1 and 3 years. The Company is not entitled any privilege to purchase leased properties at the end of the lease.

As at December 31, 2017 and 2016, the Company had placed deposits totaling NT\$538,000 and NT\$526,000, respectively, in relation to the operating lease agreements.

The sum of minimum lease payments on irrevocable operating lease arrangements is explained below:

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Within 1 year                              | \$ 2,940                 | \$ 2,334                 |
| More than 1 year but not exceeding 5 years | <u>486</u>               | <u>1,026</u>             |
|  | <u>\$ 3,426</u>          | <u>\$ 3,360</u>          |

(II) Where the Company is the lessor

Operating lease arrangements involve leasing of the Company's investment properties, which have a lease tenor of 1 to 8 years. All operating lease agreements contain clauses that enable the lessor to adjust rent according to the market rate if the lessee chooses to renew lease at the end of the lease tenor. The lessees are not entitled any privileges to purchase the leased properties at the end of the lease period.

As at December 31, 2017 and 2016, the Company had collected deposits totaling NT\$15,111,000 and NT\$15,162,000, respectively, in relation to the operating lease agreements.

The sum of minimum lease receipts on irrevocable operating lease arrangements is explained below:

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| Within 1 year                              | \$ 55,856                | \$ 60,159                |
| More than 1 year but not exceeding 5 years | 72,150                   | 92,821                   |
| More than 5 years                          | <u>6,536</u>             | <u>11,767</u>            |
|  | <u>\$ 134,542</u>        | <u>\$ 164,747</u>        |

## XXVIII. Capital risk management

Please refer to Note 35(6) for more information on the management of asset and liability risks. According to the Insurance Act, the Company is required to maintain capital at no lesser than 200% of risk-weighted assets. Failure to maintain the abovementioned ratio will render the Company unable to distribute earnings; meanwhile, the Company would be required to raise capital within the due dates specified by the competent authority or have business activities and use of capital restricted in certain ways. As at December 31, 2017, the Company had maintained its capital above the percentage stated in the Insurance Act and was not subject to the above treatments.

## XXIX. Financial instruments

### (I) Fair value information - financial instruments that are not measured at fair value

Apart from the items listed below, the management considers all other financial assets and liabilities not measured at fair value to have book values closely resembling their fair values, or that their fair values can not be determined reliably.

#### 1. Financial assets with book value significantly different from fair value

|   | December 31, 2017 |            | December 31, 2016 |            |
|---|-------------------|------------|-------------------|------------|
|   | Book value        | Fair value | Book value        | Fair value |
| <u>Financial assets</u>                   |                   |            |                   |            |
| Investment in bond without active markets | \$ 80,000         | \$ 79,749  | \$ 80,000         | \$ 80,000  |

#### 2. Fair value hierarchy

##### December 31, 2017

|   | Level 1 | Level 2 | Level 3   | Total     |
|---|---------|---------|-----------|-----------|
| <u>Financial assets</u>                   |         |         |           |           |
| Investment in bond without active markets | \$ -    | \$ -    | \$ 79,749 | \$ 79,749 |

##### December 31, 2016

|   | Level 1 | Level 2 | Level 3   | Total     |
|---|---------|---------|-----------|-----------|
| <u>Financial assets</u>                   |         |         |           |           |
| Investment in bond without active markets | \$ -    | \$ -    | \$ 80,000 | \$ 80,000 |

If no open market quotation is available, value is assessed using the counterparty valuation model or the price quoted by financial peers.

(II) Fair value information - financial instruments with fair value measured on a recurring basis

1. Fair value hierarchy

December 31, 2017

|  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
|--|---------------------|----------------|----------------|---------------------|
| <u>Financial Assets at Fair Value through Profit or Loss</u> |                     |                |                |                     |
| TWSE/TPEX listed shares                                      | \$ 1,003,933        | \$ -           | \$ -           | \$ 1,003,933        |
| Fund beneficiary certificates                                | <u>1,717,489</u>    | <u>-</u>       | <u>-</u>       | <u>1,717,489</u>    |
| Total  | <u>\$ 2,721,422</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 2,721,422</u> |

Available-for-Sale

|                               |                   |                     |             |                     |
|-------------------------------|-------------------|---------------------|-------------|---------------------|
| <u>Financial Assets</u>       |                   |                     |             |                     |
| TWSE/TPEX listed securities   |                   |                     |             |                     |
| - Equity investments          | \$ 171,467        | \$ -                | \$ -        | \$ 171,467          |
| - Bond investments            | 7,158             | 2,045,756           | -           | 2,052,914           |
| Fund beneficiary certificates | <u>151,050</u>    | <u>-</u>            | <u>-</u>    | <u>151,050</u>      |
| Total                         | <u>\$ 329,675</u> | <u>\$ 2,045,756</u> | <u>\$ -</u> | <u>\$ 2,375,431</u> |

Guarantee Deposits Paid

|                             |                   |             |             |                   |
|-----------------------------|-------------------|-------------|-------------|-------------------|
| TWSE/TPEX listed securities |                   |             |             |                   |
| - Bond investments          | <u>\$ 472,282</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 472,282</u> |

December 31, 2016

|  | <u>Level 1</u>      | <u>Level 2</u> | <u>Level 3</u> | <u>Total</u>        |
|--|---------------------|----------------|----------------|---------------------|
| <u>Financial Assets at Fair Value through Profit or Loss</u> |                     |                |                |                     |
| TWSE/TPEX listed shares                                      | \$ 836,201          | \$ -           | \$ -           | \$ 836,201          |
| Fund beneficiary certificates                                | <u>1,094,130</u>    | <u>-</u>       | <u>-</u>       | <u>1,094,130</u>    |
| Total  | <u>\$ 1,930,331</u> | <u>\$ -</u>    | <u>\$ -</u>    | <u>\$ 1,930,331</u> |

Available-for-Sale

|                               |                   |                     |             |                     |
|-------------------------------|-------------------|---------------------|-------------|---------------------|
| <u>Financial Assets</u>       |                   |                     |             |                     |
| TWSE/TPEX listed securities   |                   |                     |             |                     |
| - Equity investments          | \$ 225,383        | \$ -                | \$ -        | \$ 225,383          |
| - Bond investments            | 7,007             | 2,350,513           | -           | 2,357,520           |
| Fund beneficiary certificates | <u>184,110</u>    | <u>-</u>            | <u>-</u>    | <u>184,110</u>      |
| Total                         | <u>\$ 416,500</u> | <u>\$ 2,350,513</u> | <u>\$ -</u> | <u>\$ 2,767,013</u> |

Guarantee Deposits Paid

|                             |                   |             |             |                   |
|-----------------------------|-------------------|-------------|-------------|-------------------|
| TWSE/TPEX listed securities |                   |             |             |                   |
| - Bond investments          | <u>\$ 463,004</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ 463,004</u> |

In periods 2017 and 2016, there was no change of fair value measurement between level 1 and level 2.

Level 2 fair value measurement techniques and inputs:

| Type of financial instrument         | Measurement techniques and inputs   |
|--------------------------------------|---|
| Investment in TWSE/TPEX listed bonds | Fair value is derived based on information of the primary market and indicative yield curve published by Taipei Exchange. |

(III) Types of financial instrument

|  | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|--|--------------------------|--------------------------|
| <u>Financial assets</u>                                |                          |                          |
| Held for trading at fair value through profit and loss | \$ 2,721,422             | \$ 1,930,331             |
| Loans and receivables (Note 1)                         | 5,093,492                | 5,091,682                |
| Available-for-sale financial assets (Note 2)           | 3,505,125                | 3,867,912                |
| <u>Financial liabilities</u>                           |                          |                          |
| Carried at cost after amortization (Note 3)            | 678,865                  | 604,284                  |

Note 1: Balance includes cash and cash equivalents, investment in bond without active markets, notes receivable - net, premiums receivable - net, other receivables, other financial assets, claims recoverable from reinsurers, reinsurance accounts receivable, guarantee deposits paid (excluding insurance industry guarantee deposits and rental deposits placed in the form of securities), and loans and receivables carried at cost after amortization.

Note 2: Balance includes available-for-sale financial assets, available-for-sale financial assets carried at cost, and insurance industry guarantee deposits placed in the form of securities (presented as guarantee deposits paid).

Note 3: Balance includes insurance claims payable, commissions payable, reinsurance account payable, other payables (excluding salary, bonus and leave encashment payable), guarantee deposits paid (excluding rental deposit), and financial liabilities carried at cost after amortization.

(IV) Purpose and policy of financial risk management

For the purpose of establishing sound risk management practice, internal risk awareness, and robust risk management framework, the Company has implemented relevant principles and policies along with qualitative and quantitative methods to assess, respond and monitor potential risks.

The Company's financial instruments mainly comprise equity and debt investments, receivables and payables. Key risk exposures include market risk (including exchange rate risk, interest rate risk and price risk), credit risk and liquidity risk.

1. Market risk



Risks of exchange rate variation, interest rate variation and equity price variation are considered the Company's main financial risks, given its operating activities.

There is no change in how the Company manages and assesses market risk exposure of its financial instruments.

(1) Exchange rate risk

The Company holds assets and liabilities denominated in foreign currencies, which presents the Company with risk of exchange rate variation. As at December 31, 2017, the Company had about 4.6% of assets that were not denominated in the functional currency of the transaction entity.

The Company had the following financial assets denominated in foreign currencies that were exposed to material exchange rate risk as at the balance sheet date:

|                                      | Unit: in thousands of foreign currency or NTD |                  |           |
|--------------------------------------|---|------------------|-----------|
|                                      | December 31, 2017                             |                  |           |
|                                      | Foreign<br>currency                           | Exchange<br>rate | NTD       |
| <u>Financial assets</u>              |   |                  |           |
| <u>Monetary items</u>                |   |                  |           |
| Bank deposit and<br>notes receivable |   |                  |           |
| USD                                  | \$ 1,227                                      | 29.760           | \$ 36,522 |
| EUR                                  | 5   | 35.570           | 179       |
| CNY                                  | 328   | 4.565            | 1,498     |
| HKD                                  | 30  | 3.807            | 115       |
| Other Financial Assets               |   |                  |           |
| USD                                  | 19,400  | 29.760           | 577,344   |
| CNY                                  | 16,000  | 4.565            | 73,040    |

December 31, 2016

|                                      | Foreign<br>currency | Exchange<br>rate | NTD       |
|--------------------------------------|---------------------|------------------|-----------|
| <u>Financial assets</u>              |                     |                  |           |
| <u>Monetary items</u>                |                     |                  |           |
| Bank deposit and<br>notes receivable |                     |                  |           |
| USD                                  | \$ 520              | 32.200           | \$ 16,748 |
| EUR                                  | 170                 | 33.700           | 5,717     |
| CNY                                  | 212                 | 4.592            | 974       |
| HKD                                  | 49                  | 4.128            | 201       |
| Other Financial Assets               |                     |                  |           |
| USD                                  | 13,600              | 32.200           | 437,920   |
| CNY                                  | 16,000              | 4.592            | 73,472    |

Unrealized foreign currency gain/loss of material impact:

| Foreign<br>currency | 2017                  |  | 2016                    |  |
|---------------------|-----------------------|--|-------------------------|--|
|                     | Exchange rate         | Unrealized<br>net<br>loss on<br>exchange | Exchange rate           | Unrealized<br>net<br>loss on<br>exchange |
| USD                 | 1:29.760<br>(USD:NTD) | (\$ 47,336)                              | 1 : 32.200<br>(USD:NTD) | (\$ 1,493)                               |
| CNY                 | 1:4.565<br>(CNY:NTD)  | ( 432)                                   | 1 : 4.592<br>(CNY:NTD)  | ( 2,038)                                 |
|                     |                       | (\$ 47,768)                              |                         | (\$ 3,531)                               |

### Sensitivity analysis

The Company is prone to the impact of changes in USD and CNY exchange rates.

The following sensitivity analysis shows the impact of a 1% strengthening/weakening in the foreign currency against NTD (the functional currency) to the Company. 1% is the rate of sensitivity adopted by the management when reporting exchange rate risks. It also represents the management's estimate on the reasonable range of exchange rate variation. The sensitivity analysis only covered monetary items denominated in foreign currency, and the analysis was performed by making a 1% adjustment to the exchange rate applicable at the end of the period. The sensitivity analysis covered foreign currency bank deposit, other financial assets, and notes receivable. The following table shows decrease in pre-tax profit and equity if NTD strengthens against other currencies by 1%. Effects on pre-tax profit and equity following a 1% strengthening of the NTD against the respective foreign currencies would be the positive figure of the same amount.

|                    | <u>2017</u> | <u>2016</u> |
|--------------------|-------------|-------------|
| Gain (loss) on USD | (\$ 6,139)  | (\$ 4,547)  |
| Gain (loss) on CNY | ( 745)      | ( 744)      |

(2) Interest rate risk

The book value of financial assets exposed to interest rate risks as at the balance sheet date is presented below:

|   | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|---|--------------------------|--------------------------|
| Risk of cash flow changes due to interest rate  |                          |                          |
| - Financial assets                              | \$ 669,188               | \$ 809,719               |
| Risk of fair value changes due to interest rate |                          |                          |
| - Financial assets                              | 2,525,196                | 2,820,524                |

Sensitivity analysis

The following sensitivity analysis has been prepared based on interest rate risk exposures of derivatives and non-derivatives as at the balance sheet date. The Company had conducted the sensitivity analysis based on 1 basis-point increase/decrease in interest rate, which also represents the management's estimate on the reasonable range of interest rate variation.

A. Risk of cash flow changes due to interest rate

If interest rate increased/decreased by 1 basis point, the Company's 2017 pre-tax profit and equity would increase/decrease by NT\$67,000, provided that all other variables remain unchanged. Exposure to interest rate risk is mainly attributed to bank deposits (demand deposits and foreign currency deposits) held on hand.

B. Risk of fair value changes due to interest rate

All of the Company's bond investments pay fixed interest. A change in market interest rate would cause changes in the fair value of bond investments.

If market interest rate increased/decreased by 1 basis point, the 2017 other comprehensive income (pre-tax) and equity would decrease/increase by NT\$783,000 due to changes in the fair value of available-for-sale financial assets.

(3) Other price risks

The Company is exposed to the risk of equity price variation due to investment in TWSE/TPEX-listed beneficiary securities and fund beneficiary certificates.

### Sensitivity analysis

The following sensitivity analysis is based on equity price risks of beneficiary securities and fund beneficiary certificates outstanding as at the balance sheet date.

A 1% rise/fall in the price of beneficiary securities and beneficiary certificates would increase/decrease the 2017 pre-tax profit and equity by NT\$27,214,000 due to changes in the fair value of investments held for trading. Meanwhile, the sum of 2017 other comprehensive income before tax and fair value of available-for-sale financial assets would increase/decrease by NT\$3,225,000.

#### 2. Credit risk

Credit risk refers to the risk of financial loss due to the counterparty's absence in fulfilling contractual obligations. As at the balance sheet date, the Company's maximum exposure to the risk of loss due to counterparties' default of contractual obligations is represented by the book value of financial assets shown on the balance sheet.

The Company uses accessible financial information and previous transaction records to rate its major customers. The Company monitors credit risk exposure and counterparty credit risks on an ongoing basis.

The Company credit risk exposure is significantly concentrated in the top five reinsurers from which claims and reinsurance accounts are receivable. As at December 31, 2017 and 2016, amounts receivable from the above customers accounted for 25% and 19% of total receivables.

#### 3. Liquidity risk

The Company maintains adequate position of cash and cash equivalents to support corporate operations and to mitigate effects of cash flow variation.

The following table is a maturity analysis for non-derivative financial liabilities (including insurance claims payable, commissions payable, reinsurance account payable and other payables) with pre-arranged repayment date. The analysis has been prepared based on the earliest date by which the Company may be required to repay, using undiscounted cash flow.

#### December 31, 2017

|   | Weighted<br>average<br>effective<br>interest<br>rate (%) | Repayable<br>upon demand<br>or within 1<br>month | 1 to 3 months    | 3 months<br>to 1 year | 1 to 5 years | 5 years and<br>above |
|---|--|--|------------------|-----------------------|--------------|----------------------|
| <u>Non-derivative<br/>financial liabilities</u> |  |  |                  |                       |              |                      |
| Non-interest bearing<br>liabilities             | -  | <u>\$ 340,415</u>                                | <u>\$ 36,936</u> | <u>\$ 387,251</u>     | <u>\$ -</u>  | <u>\$ -</u>          |

December 31, 2016

|   | Weighted<br>average<br>effective<br>interest<br>rate (%) | Repayable<br>upon demand<br>or within 1<br>month | 1 to 3 months | 3 months<br>to 1 year | 1 to 5 years | 5 years and<br>above |
|---|--|--|---------------|-----------------------|--------------|----------------------|
| <u>Non-derivative<br/>financial liabilities</u> |  |  |               |                       |              |                      |
| Non-interest bearing<br>liabilities             | -  | \$ 290,294                                       | \$ 324,077    | \$ 60,433             | \$ 8,108     | \$ -                 |

(V) Reclassification

The Company had reclassified its financial assets on July 1, 2008. Fair value as at the date of reclassification is as follows:

|   | <u>Before<br/>reclassification</u> | <u>After<br/>reclassification</u> |
|---|------------------------------------|-----------------------------------|
| Financial assets at fair value<br>through profit and loss - held<br>for trading | \$ 2,003,836                       | \$ -                              |
| Available-for-Sale Financial<br>Assets  | <u>-</u>                           | <u>2,003,836</u>                  |
|   | <u>\$ 2,003,836</u>                | <u>\$ 2,003,836</u>               |

Worldwide financial turmoil in the 3rd quarter of 2008 had resulted in substantial loss of investors' confidence and collapse in the price of financial instruments. In a decision not to sell the above-listed financial assets held for trading over the short term, the Company chose to appropriately reclassify them as available-for-sale financial assets instead.

The book value and fair value of reclassified and outstanding financial assets are shown below:

|  | <u>December 31, 2017</u> |                   | <u>December 31, 2016</u> |                   |
|--|--------------------------|-------------------|--------------------------|-------------------|
|  | <u>Book value</u>        | <u>Fair value</u> | <u>Book value</u>        | <u>Fair value</u> |
| Available-for-Sale<br>Financial Assets | <u>\$ 100,672</u>        | <u>\$ 100,672</u> | <u>\$ 65,833</u>         | <u>\$ 65,833</u>  |

The following table shows amounts recognized in profit and loss on reclassified and outstanding financial assets as at the balance sheet date in 2017 and 2016, and pro-forma gains/losses that need to be recognized on the financial assets if they were not reclassified in the first place:

|  | <u>2017</u>  |  | <u>2016</u>  |  |
|--|--|--|--|--|
|  | <u>Amount of<br/>gains (losses)<br/>recognized</u> | <u>Pro-forma<br/>gains (losses)<br/>recognizable<br/>under original<br/>classification</u> | <u>Amount of<br/>gains (losses)<br/>recognized</u> | <u>Pro-forma<br/>gains (losses)<br/>recognizable<br/>under original<br/>classification</u> |
| Available-for-Sale<br>Financial Assets | \$ -   | \$ 34,839  | \$ -   | (\$ 5,957)   |

XXX. Related party transactions

(I) Name and relationship of related parties

| <u>Name of related party</u>                                     | <u>Relationship with the Company</u>   |
|--|--|
| Yi Chih Co., Ltd.  | Other related parties  |
| Ta Feng Construction Engineering Co., Ltd.                       | Other related parties  |
| Zong Cheng Enterprise Co., Ltd.                                  | Other related parties  |
| Du Ho Enterprise Co., Ltd.                                       | Other related parties  |
| Chien Yi Industrial Co., Ltd.                                    | Other related parties  |
| Chien Cheng Development Co., Ltd.                                | Other related parties  |
| Hua Wang Manufacturer Co., Ltd.                                  | Other related parties  |
| Hai Hwa Construction Co., Ltd.                                   | Other related parties  |
| Tsai Cheng Enterprise Co., Ltd.                                  | Other related parties  |
| Fu Bi Shi Construction Co., Ltd.                                 | Other related parties  |
| Tai Jing Apartment Building Management and Maintenance Co., Ltd. | Other related parties  |
| Taiwan Real Estate Management Co., Ltd.                          | Other related parties  |
| Taiwan Fuji Die Co., Ltd.  | Other related parties  |
| Yon Gji Enterprise Co., Ltd.                                     | Other related parties  |
| CHIMAX Development Company                                       | Other related parties  |
| Pao Shan Construction Co., Ltd.                                  | Other related parties  |
| Jui San Co., Ltd.  | Other related parties  |
| Chi Yi Construction Management Co., Ltd.                         | Other related parties  |
| Jia Tai Construction Co., Ltd.                                   | Other related parties  |
| Yi Guang Enterprise Development Co., Ltd.                        | Other related parties  |
| Chien Chi Co., Ltd.  | Other related parties  |
| Other related parties  | Second degree relatives or closer to the company's Director, Chairman or President |

(II) Major transactions with related parties

1. Premium revenues

| <u>Type of related party</u> | <u>2017</u>     | <u>2016</u>     |
|------------------------------|-----------------|-----------------|
| Other related parties        | <u>\$ 3,573</u> | <u>\$ 3,454</u> |

2. Insurance claims paid

| <u>Type of related party</u> | <u>2017</u>   | <u>2016</u>  |
|------------------------------|---------------|--------------|
| Other related parties        | <u>\$ 567</u> | <u>\$ 90</u> |

The above insurance coverage to other related parties were underwritten with the same terms and claim criteria as non-related parties.

3. Rental expense

| <u>Type of related party</u> | <u>2017</u>  | <u>2016</u>  |
|------------------------------|--------------|--------------|
| Other related parties        | <u>\$ 12</u> | <u>\$ 17</u> |

Rental of conference room from the above related parties were undertaken at terms that were not materially different from ordinary transactions.

4. Premiums receivable

| <u>Type of related party</u> | <u>December 31, 2017</u> | <u>December 31, 2016</u> |
|------------------------------|--------------------------|--------------------------|
| Other related parties        | <u>\$ 171</u>            | <u>\$ 383</u>            |

(III) Remuneration to the executive management

|                              | <u>2017</u>      | <u>2016</u>      |
|------------------------------|------------------|------------------|
| Short-term employee benefits | \$ 45,080        | \$ 46,491        |
| Retirement benefits          | <u>3,392</u>     | <u>3,986</u>     |
|                              | <u>\$ 48,472</u> | <u>\$ 50,477</u> |

Compensation to directors and members of the executive management is determined by the Remuneration Committee based on individual performance and market trends.

XXXI. Major contingent liabilities and unrecognized contractual commitments

The Company is a non-life insurance company, and had no major commitment or contingent liability as at the balance sheet date apart from those mentioned in other footnotes.

XXXII. Losses from major disasters: None.

XXXIII. Major post-balance sheet events

A major earthquake occurred in Hualien on February 6, 2018. According to the terms of the earthquake rider attached to a commercial fire insurance policy, the Company's retained losses should be within the NT\$250,000,000 limit.

XXXIV. Information on foreign currency-denominated financial assets and liabilities and exchange rate

Please refer to paragraph 1. Market risk in Note 29(4) for foreign currency-denominated financial assets of material impact.

XXXV. Risk management goals, policies, procedures and methods

(I) Risk management policies and goals

The Company has established risk management policies and procedures according to “Risk Management Best Practice Principles for Insurance Enterprises” and “Regulations Governing Implementation of Internal Control and Auditing System of Insurance Enterprises” to provide the foundation needed to facilitate proper risk management, business expansion, accomplishment of operational targets, and enhancement of shareholder value. These policies and procedures also provide the basis for other risk management guidelines within the Company.

(II) Risk management framework, organization and responsibilities

1. Risk management framework and organization

The board of directors outlines the Company's risk management policies based on overall operational strategies and the prevailing business environment. The board is ultimately responsible for overall risk management within the Company. A Risk Management Committee has been assembled under the board of directors while a Risk Management Department has been created outside of

business units to enable continuous monitoring of the risk management system. The independent director serves as the convener for the Risk Management Committee. The committee's responsibilities are to supervise risk exposures and to ensure that the Company has adequate capital to meet all risks. The Risk Management Department is responsible for executing the risk management policy, consolidating risk information from all departments, and communicating/coordinating across different departments for the execution of risk policies and limits.

2. The responsibilities of each unit are listed as below:

Board of Directors

- (1) The board of directors is the highest decision maker of risk management issues, and is ultimately responsible for overall risk management within the Company.
- (2) The board is responsible for the establishment of proper risk management systems and cultures, approval and regular review of risk management policies, and making the most efficient allocation of available resources.
- (3) The board evaluates risks, consequences and effects from the perspective of the entire organization. It also makes decisions in line with legal capital requirements imposed by the competent authority, while taking into consideration various financial and business rules that are relevant to capital allocation.
- (4) The board reviews risk appetite on a yearly basis and makes adjustments as deemed appropriate.
- (5) The Chairman is authorized to approve risk management-related policies within the Company.

Risk Management Committee

- (1) The committee outlines the Company's risk management policies, framework and organization, and implements quantitative or qualitative standards for the Company's major risk exposures. The committee presents formal reports to the board of directors at least twice a year, and provides the board with relevant updates and recommendation as deemed necessary.
- (2) The committee executes the board's risk management decisions and performs full-scale review of the Company's risk management system, implementation and execution at least once a year.
- (3) The committee assists and supervises various departments in risk management activities.
- (4) The committee adjusts risk exposure category, risk limit and risk mitigation methods depending on changes in the environment.
- (5) The committee coordinates risk management practices and establishes communication and interaction across different departments.
- (6) The committee supervises overall risk management of the Company.



### Risk Management Department

- (1) The department assists in the development of risk management policy, framework and organization, and executes board-approved risk management policy.
- (2) The department assists in setting risk limits based on risk appetite.
- (3) The department is responsible for consolidating risk information from all departments, and communicating/coordinating across different departments for the execution of risk policies and limits.
- (4) The department prepares monthly risk management reports.
- (5) The department monitors breach and use of risk limit by business units at least twice a year.
- (6) The department assists in stress testing.
- (7) The department performs back testing where necessary.
- (8) The department resolves breach of risk limit by other units.
- (9) Other risk management-related affairs.

### Business units

- (1) Identify risk and report risk exposure.
- (2) Assess extent of impact (quantitative or qualitative) in the occurrence of risk event, and convey risk information in a timely and accurate manner.
- (3) Review risk exposure and limits at least twice a year to ensure that risk limits are properly executed within business units.
- (4) Monitor risk exposure and report limit breach, including actions taken by the business unit in response to the breach.
- (5) Assist in the development of risk model. Ensure that the business unit adopts consistent and rational assumptions and basis for its risk assessment and modeling.
- (6) Ensure that internal control procedures are effectively executed by the business unit in a manner that complies with laws and the Company's risk management policy.
- (7) Assist in the gathering of operational risk-related data.
- (8) The head of each business unit shall supervise the transfer of risk management information to the Risk Management Department, and is responsible for the daily risk management, reporting and response of the assigned unit.
- (9) The head of each business unit shall assign risk management personnel to assist them in the effective execution of risk management tasks.

### Internal audit

Internal auditors are responsible for auditing business activities of high integrity risk in accordance with Ethical Corporate Management Best Practice Principles for TWSE/TPEX Listed Companies and prevailing regulations. They also assess risk management practices of various business units and the Risk Management Department, and review the design and execution of internal

control system. A formal report containing internal auditors' findings is prepared and presented to the board of directors.

(III) Control and disclosure of key risks

The Company has systems and practices in place to manage key risk categories that arise in relation to its business activities, such as market risk, credit risk, liquidity risk, assets and liabilities matching risk, insurance risk and operational risk. These systems and practices are constantly reviewed (including assessment on the effectiveness of risk management system and appropriateness of risk factors) to accommodate the Company's goals, risk exposures and changes in the external environment. The board of directors is reported regularly on the Company's risk management progress, and advised on possible improvements whenever deemed necessary.

(IV) Control of insurance contract risks

Insurance contract risks can be distinguished into several risk sub-categories by stages of business activity, including product design and pricing risk, underwriting risk, reinsurance risk, disaster risk, claims risk, and reserve-related risk. Definitions of each risk sub-category are as follows:

1. Insurance risks

Insurance risk refers to the risk of loss caused by unexpected changes after the Company has collected insurance premiums, assumed the transfer of risk from insured parties and become obliged to pay claims and associated expenses.

2. Product design and pricing risks

Product design and pricing risk refers to the risk of using inappropriate or inconsistent information for product design, terms setting and pricing, or the risk of reference information becoming obsolete due to unexpected change in circumstances.

3. Underwriting risks

Underwriting risk refers to the risk of unexpected losses and expenses arising from business solicitation and underwriting review.

4. Reinsurance risks

Reinsurance risk refers to the risk of reinsurers becoming unable to fulfill obligations for undertaking risks beyond capacity without proper reinsurance arrangement, and thereby rendering the Company unable to collect premiums, claims or expenses from reinsurers.

5. Disaster risks

Disaster risk refers to the risk of one or multiple insurance categories suffering losses due to occurrence of risk events, to the extent that may negatively affect the Company's credit rating or solvency.

6. Claims risks

Claims risk refers to the risk of mishandling customers' claim requests.

7. Reserve-related risks

Reserve-related risk refers to the risk of underestimating liabilities on insurance coverage underwritten by the Company, leaving insufficient reserves to meet future obligations.

The Company has a set of “Insurance Risk Management Guidelines” and systems in place to manage insurance risks. The risk management process includes risk identification, assessment, response, monitoring and reporting.

(V) Control of insurance risk exposure and avoidance of risk concentration

The Company has adopted practices in accordance with “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms” to manage the risks of retained, ceded and assumed insurance coverage. Reinsurance plans are devised and executed after taking into consideration the Company's risk tolerance. Please refer to Note 36(9) for retention limits of each insurance category.

(VI) Asset and liability management

The Company's insurance liabilities are of short-term nature, which makes liquidity the primary concern in asset and liability management. The Company has identified three liquidity levels: Normal, Cautious and Critical based on the liquidity ratio, and applied different management practices for each of the above levels. The Company tries to maintain liquidity within the Normal level at all times. Any sign of liquidity deteriorating to the Cautious level (before the Critical level) must be reported with asset positions reviewed immediately, followed by a reassessment of asset allocation if necessary. If liquidity deteriorates to the Critical level, an emergency response meeting must be convened immediately to discuss possible solutions.

XXXVI. Disclosure of insurance contract-related information

(I) Details of insurance contract receivables:

|                                  | December 31, 2017   |                        |   |   |                   |
|----------------------------------|---------------------|------------------------|---|---|-------------------|
|                                  | Notes<br>receivable | Premiums<br>receivable | Reinsurance<br>accounts<br>receivable<br>- assumed<br>reinsurance<br>coverage<br>(Note) | Reinsurance<br>accounts<br>receivable<br>- ceded<br>reinsurance<br>coverage<br>(Note) | Total             |
| Fire Insurance                   | \$ 11,319           | \$ 105,548             | \$ 1,627  | \$ 62,577   | \$ 181,071        |
| Marine Insurance                 | 40,727              | 34,313                 | 5,249   | 8,341   | 88,630            |
| Automobile<br>Insurance          | 147,340             | 50,850                 | 34,101  | 25,511  | 257,802           |
| Engineering<br>Insurance         | 12,207              | 12,359                 | 1,238   | 3,581   | 29,385            |
| Personal accident<br>Insurance   | 4,887               | 37,221                 | 709   | 67,059  | 109,876           |
| Accident<br>Insurance            | 5,256               | 28,279                 | 1,848   | 7,457   | 42,840            |
| Others                           | 39                  | 100,263                | 1,286   | 19,464  | 121,052           |
|                                  | <u>221,775</u>      | <u>368,833</u>         | <u>46,058</u>   | <u>193,990</u>  | <u>830,656</u>    |
| Less: doubtful<br>debt provision | ( 3,102)            | ( 43,066)              | -   | ( 1,113)  | ( 47,281)         |
| Net value                        | <u>\$ 218,673</u>   | <u>\$ 325,767</u>      | <u>\$ 46,058</u>  | <u>\$ 192,877</u>   | <u>\$ 783,375</u> |

|                               | December 31, 2016   |                        |   |   |                   |
|-------------------------------|---------------------|------------------------|---|---|-------------------|
|                               | Notes<br>receivable | Premiums<br>receivable | Reinsurance<br>accounts<br>receivable<br>- assumed<br>reinsurance<br>coverage<br>(Note) | Reinsurance<br>accounts<br>receivable<br>- ceded<br>reinsurance<br>coverage<br>(Note) | Total             |
| Fire Insurance                | \$ 16,961           | \$ 110,811             | \$ 233  | \$ 25,245   | \$ 153,250        |
| Marine Insurance              | 44,009              | 27,074                 | 2,349   | 3,609   | 77,041            |
| Automobile Insurance          | 119,213             | 45,358                 | 19,742  | 55  | 184,368           |
| Engineering Insurance         | 18,999              | 17,108                 | 1,396   | 6,049   | 43,552            |
| Personal accident Insurance   | 4,010               | 39,384                 | 790   | 51,483  | 95,667            |
| Accident Insurance            | 4,878               | 27,537                 | 3,138   | 11,605  | 47,158            |
| Other insurance               | -                   | 100,457                | 1,505   | 20,307  | 122,269           |
|                               | <u>208,070</u>      | <u>367,729</u>         | <u>29,153</u>   | <u>118,353</u>  | <u>723,305</u>    |
| Less: doubtful debt provision | ( 8,639)            | ( 38,406)              | -   | ( 634)  | ( 47,679)         |
| Net value                     | <u>\$ 199,431</u>   | <u>\$ 329,323</u>      | <u>\$ 29,153</u>  | <u>\$ 117,719</u>   | <u>\$ 675,626</u> |

Note: Presented as reinsurance contract assets.

(II) Unearned premium reserve

1. Details of unearned premium reserve:

| Class  | December 31, 2017   | December 31, 2016   |
|--|---------------------|---------------------|
| Long-term residential fire insurance                           | \$ 192,313          | \$ 248,249          |
| One-year commercial fire insurance                             | 216,504             | 205,257             |
| General automobile hull insurance for private vehicle          | 997,207             | 950,776             |
| General automobile liabilities insurance for private vehicle   | 702,029             | 634,658             |
| Mandatory automobile liabilities insurance for private vehicle | 246,024             | 238,383             |
| Personal accident insurance                                    | 363,403             | 312,949             |
| Others   | <u>1,200,361</u>    | <u>1,243,444</u>    |
|  | <u>\$ 3,917,841</u> | <u>\$ 3,833,716</u> |

Due to the extensive range of insurance categories involved, only categories that represented more than 5% of outstanding balance were presented above.

2. Details of retained unearned premium reserve:

|                             | December 31, 2017        |                         |                                    |  |
|-----------------------------|--------------------------|-------------------------|------------------------------------|--|
|                             | Unearned premium reserve |                         | Ceded and unearned Premium reserve | Retained insurance (4) = (1) + (2) - (3) |
|                             | Direct insurance (1)     | Assumed reinsurance (2) | Ceded reinsurance (Note)(3)        |  |
| Fire Insurance              | \$ 561,177               | \$ 15,316               | \$ 252,964                         | \$ 323,529                               |
| Marine Insurance            | 93,796                   | 2,942                   | 37,195                             | 59,543                                   |
| Automobile Insurance        | 2,106,082                | 138,634                 | 368,979                            | 1,875,737                                |
| Engineering Insurance       | 106,604                  | 6,289                   | 82,643                             | 30,250                                   |
| Personal accident Insurance | 361,441                  | 1,962                   | 184,580                            | 178,823                                  |
| Accident Insurance          | 182,824                  | 11,319                  | 51,966                             | 142,177                                  |
| Other Insurance             | 307,119                  | 22,336                  | 238,554                            | 90,901                                   |
|                             | <u>\$ 3,719,043</u>      | <u>\$ 198,798</u>       | <u>\$ 1,216,881</u>                | <u>\$ 2,700,960</u>                      |
|                             | December 31, 2016        |                         |                                    |  |
|                             | Unearned premium reserve |                         | Ceded and unearned Premium reserve | Retained insurance (4) = (1) + (2) - (3) |
|                             | Direct insurance (1)     | Assumed reinsurance (2) | Ceded reinsurance (Note)(3)        |  |
| Fire Insurance              | \$ 610,225               | \$ 9,406                | \$ 314,237                         | \$ 305,394                               |
| Marine Insurance            | 106,591                  | ( 1,191 )               | 47,655                             | 57,745                                   |
| Automobile Insurance        | 1,992,743                | 137,381                 | 353,483                            | 1,776,641                                |
| Engineering Insurance       | 118,488                  | 5,768                   | 103,637                            | 20,619                                   |
| Personal accident Insurance | 311,185                  | 1,764                   | 134,316                            | 178,633                                  |
| Accident Insurance          | 185,284                  | 13,314                  | 51,316                             | 147,282                                  |
| Other Insurance             | 321,031                  | 21,727                  | 255,591                            | 87,167                                   |
|                             | <u>\$ 3,645,547</u>      | <u>\$ 188,169</u>       | <u>\$ 1,260,235</u>                | <u>\$ 2,573,481</u>                      |

Note: Presented as reinsurance contract assets.

3. Changes in unearned premium reserve and ceded unearned reserve

| Item                            | 2017                     |                                    |
|---------------------------------|--------------------------|------------------------------------|
|                                 | Unearned premium reserve | Ceded and unearned Premium reserve |
| Amount at the beginning of year | \$ 3,833,716             | \$ 1,260,235                       |
| Provisions made in current year | 3,917,841                | 1,216,881                          |
| Recoveries made in current year | ( 3,833,716 )            | ( 1,260,235 )                      |
| Amount at the end of year       | <u>\$ 3,917,841</u>      | <u>\$ 1,216,881</u>                |

| Item                            | 2016                     |                                    |
|---------------------------------|--------------------------|------------------------------------|
|                                 | Unearned premium reserve | Ceded and unearned Premium reserve |
| Amount at the beginning of year | \$ 3,775,650             | \$ 1,253,538                       |
| Provisions made in current year | 3,833,716                | 1,260,235                          |
| Recoveries made in current year | ( 3,775,650 )            | ( 1,253,538 )                      |
| Amount at the end of year       | <u>\$ 3,833,716</u>      | <u>\$ 1,260,235</u>                |

(III) Claim reserve

1. Details of claim reserve:

| Class  | December 31, 2017   | December 31, 2016   |
|--|---------------------|---------------------|
| One-year commercial fire insurance                             | \$ 338,219          | \$ 518,137          |
| General automobile hull insurance for private vehicle          | 198,733             | 203,897             |
| General automobile liabilities insurance for private vehicle   | 465,703             | 434,151             |
| Mandatory automobile liabilities insurance for private vehicle | 486,264             | 416,196             |
| Mandatory motorcycle liabilities insurance                     | 123,745             | 140,397             |
| General liabilities insurance                                  | 159,328             | 161,065             |
| Typhoon and flood insurance                                    | 91,657              | 139,747             |
| Engineering insurance  | 89,939              | 175,990             |
| Commercial earthquake insurance                                | 82,665              | 291,566             |
| Others   | <u>387,294</u>      | <u>382,329</u>      |
|  | <u>\$ 2,423,547</u> | <u>\$ 2,863,475</u> |

Due to the extensive range of insurance categories involved, only categories that represented more than 5% of outstanding balance were presented above.

2. Details of retained claim reserve:

|                              | December 31, 2017                          |                               |                                   |                          |
|------------------------------|--|-------------------------------|-----------------------------------|--------------------------|
|                              | Claim reserve                              |                               | Ceded claim<br>reserve            | Retained<br>insurance    |
|                              | Direct<br>underwritten<br>insurance<br>(1) | Assumed<br>reinsurance<br>(2) | Ceded<br>reinsurance<br>(Note)(3) | (4) = (1) + (2) -<br>(3) |
| <u>Reported but not paid</u> |  |                               |                                   |                          |
| Fire Insurance               | \$ 395,459                                 | \$ 25,745                     | \$ 199,886                        | \$ 221,318               |
| Marine Insurance             | 76,501                                     | 1,853                         | 13,921                            | 64,433                   |
| Automobile Insurance         | 606,330                                    | 41,052                        | 109,507                           | 537,875                  |
| Engineering Insurance        | 58,099                                     | 11,477                        | 35,733                            | 33,843                   |
| Personal accident Insurance  | 20,519                                     | 5                             | 10,434                            | 10,090                   |
| Accident Insurance           | 213,030                                    | 5,506                         | 90,888                            | 127,648                  |
| Other Insurance              | <u>91,284</u>                              | <u>2,506</u>                  | <u>23,810</u>                     | <u>69,980</u>            |
|                              | <u>1,461,222</u>                           | <u>88,144</u>                 | <u>484,179</u>                    | <u>1,065,187</u>         |
| <u>Not reported</u>          |  |                               |                                   |                          |
| Fire Insurance               | 3,014                                      | 7,386                         | 3                                 | 10,397                   |
| Marine Insurance             | 7,386                                      | -                             | 892                               | 6,494                    |
| Automobile Insurance         | 611,258                                    | 140,531                       | 250,556                           | 501,233                  |
| Engineering Insurance        | 17,071                                     | 3,292                         | 9,380                             | 10,983                   |
| Personal accident Insurance  | 42,868                                     | 1                             | 19,531                            | 23,338                   |
| Accident Insurance           | 21,589                                     | 1,055                         | 2,144                             | 20,500                   |
| Other Insurance              | <u>17,398</u>                              | <u>1,332</u>                  | <u>12,173</u>                     | <u>6,557</u>             |
|                              | <u>720,584</u>                             | <u>153,597</u>                | <u>294,679</u>                    | <u>579,502</u>           |
|                              | <u>\$ 2,181,806</u>                        | <u>\$ 241,741</u>             | <u>\$ 778,858</u>                 | <u>\$ 1,644,689</u>      |

|                              | December 31, 2016                          |                               |                                   |                          |
|------------------------------|--|-------------------------------|-----------------------------------|--------------------------|
|                              | Claim reserve                              |                               | Ceded claim<br>reserve            | Retained<br>insurance    |
|                              | Direct<br>underwritten<br>insurance<br>(1) | Assumed<br>reinsurance<br>(2) | Ceded<br>reinsurance<br>(Note)(3) | (4) = (1) + (2) -<br>(3) |
| <u>Reported but not paid</u> |  |                               |                                   |                          |
| Fire Insurance               | \$ 781,872                                 | \$ 26,087                     | \$ 472,046                        | \$ 335,913               |
| Marine Insurance             | 86,435                                     | 850                           | 46,596                            | 40,689                   |
| Automobile Insurance         | 594,692                                    | 36,474                        | 100,009                           | 531,157                  |
| Engineering Insurance        | 149,683                                    | 11,898                        | 113,603                           | 47,978                   |
| Personal accident Insurance  | 26,495                                     | -                             | 16,605                            | 9,890                    |
| Accident Insurance           | 212,758                                    | 4,763                         | 90,068                            | 127,453                  |
| Other Insurance              | <u>138,030</u>                             | <u>4,531</u>                  | <u>41,210</u>                     | <u>101,351</u>           |
|                              | <u>1,989,965</u>                           | <u>84,603</u>                 | <u>880,137</u>                    | <u>1,194,431</u>         |
| <u>Not reported</u>          |  |                               |                                   |                          |
| Fire Insurance               | 6,006                                      | 5,301                         | 519                               | 10,788                   |
| Marine Insurance             | 11,857                                     | -                             | 5,054                             | 6,803                    |
| Automobile Insurance         | 523,573                                    | 134,093                       | 214,927                           | 442,739                  |
| Engineering Insurance        | 11,992                                     | 2,418                         | 5,532                             | 8,878                    |
| Personal accident Insurance  | 47,627                                     | -                             | 22,533                            | 25,094                   |
| Accident Insurance           | 24,322                                     | 658                           | 4,306                             | 20,674                   |
| Other Insurance              | <u>19,592</u>                              | <u>1,468</u>                  | <u>13,774</u>                     | <u>7,286</u>             |
|                              | <u>644,969</u>                             | <u>143,938</u>                | <u>266,645</u>                    | <u>522,262</u>           |
|                              | <u>\$ 2,634,934</u>                        | <u>\$ 228,541</u>             | <u>\$ 1,146,782</u>               | <u>\$ 1,716,693</u>      |

Note: Presented as reinsurance contract assets.

NR/NS reserves outstanding as at December 31, 2017 and 2016 were NT\$874,181,000 and NT\$788,907,000, respectively.



### 3. Net change in claim reserves and net change in ceded claim reserves

|                              | 2017                          |                     |                     |                   |                         |                   |                     |                                     |
|------------------------------|-------------------------------|---------------------|---------------------|-------------------|-------------------------|-------------------|---------------------|-------------------------------------|
|                              | Direct underwritten insurance |                     | Assumed reinsurance |                   | Claim reserve           | Ceded reinsurance |                     | Net change in                       |
|                              | Provisions (1)                | Recoveries (2)      | Provisions (3)      | Recoveries (4)    | (5)=(1)-(2)<br>+(3)-(4) | Provisions (6)    | Recoveries (7)      | ceded claim reserves<br>(8)=(6)-(7) |
| <u>Reported but not paid</u> |                               |                     |                     |                   |                         |                   |                     |                                     |
| Fire Insurance               | \$ 395,459                    | \$ 781,872          | \$ 25,745           | \$ 26,087         | (\$ 386,755)            | \$ 199,886        | \$ 472,046          | (\$ 272,160)                        |
| Marine Insurance             | 76,501                        | 86,435              | 1,853               | 850               | ( 8,931)                | 13,921            | 46,596              | ( 32,675)                           |
| Automobile Insurance         | 606,330                       | 594,692             | 41,052              | 36,474            | 16,216                  | 109,507           | 100,009             | 9,498                               |
| Engineering Insurance        | 58,099                        | 149,683             | 11,477              | 11,898            | ( 92,005)               | 35,733            | 113,603             | ( 77,870)                           |
| Personal accident Insurance  | 20,519                        | 26,495              | 5                   | -                 | ( 5,971)                | 10,434            | 16,605              | ( 6,171)                            |
| Accident Insurance           | 213,030                       | 212,758             | 5,506               | 4,763             | 1,015                   | 90,888            | 90,068              | 820                                 |
| Others                       | 91,284                        | 138,030             | 2,506               | 4,531             | ( 48,771)               | 23,810            | 41,210              | ( 17,400)                           |
|                              | <u>1,461,222</u>              | <u>1,989,965</u>    | <u>88,144</u>       | <u>84,603</u>     | <u>( 525,202)</u>       | <u>484,179</u>    | <u>880,137</u>      | <u>( 395,958)</u>                   |
| <u>Not reported</u>          |                               |                     |                     |                   |                         |                   |                     |                                     |
| Fire Insurance               | 3,014                         | 6,006               | 7,386               | 5,301             | ( 907)                  | 3                 | 519                 | ( 516)                              |
| Marine insurance             | 7,386                         | 11,857              | -                   | -                 | ( 4,471)                | 892               | 5,054               | ( 4,162)                            |
| Automobile Insurance         | 611,258                       | 523,573             | 140,531             | 134,093           | 94,123                  | 250,556           | 214,927             | 35,629                              |
| Engineering Insurance        | 17,071                        | 11,992              | 3,292               | 2,418             | 5,953                   | 9,380             | 5,532               | 3,848                               |
| Personal accident Insurance  | 42,868                        | 47,627              | 1                   | -                 | ( 4,758)                | 19,531            | 22,533              | ( 3,002)                            |
| Accident Insurance           | 21,589                        | 24,322              | 1,055               | 658               | ( 2,336)                | 2,144             | 4,306               | ( 2,162)                            |
| Others                       | 17,398                        | 19,592              | 1,332               | 1,468             | ( 2,330)                | 12,173            | 13,774              | ( 1,601)                            |
|                              | <u>720,584</u>                | <u>644,969</u>      | <u>153,597</u>      | <u>143,938</u>    | <u>85,274</u>           | <u>294,679</u>    | <u>266,645</u>      | <u>28,034</u>                       |
|                              | <u>\$ 2,181,806</u>           | <u>\$ 2,634,934</u> | <u>\$ 241,741</u>   | <u>\$ 228,541</u> | <u>(\$ 439,928)</u>     | <u>\$ 778,858</u> | <u>\$ 1,146,782</u> | <u>(\$ 367,924)</u>                 |

|                              | 2016                          |                     |                     |                   |                         |                     |                   |                                     |
|------------------------------|-------------------------------|---------------------|---------------------|-------------------|-------------------------|---------------------|-------------------|-------------------------------------|
|                              | Direct underwritten insurance |                     | Assumed reinsurance |                   | Claim reserve           | Ceded reinsurance   |                   | Net change in                       |
|                              | Provisions (1)                | Recoveries (2)      | Provisions (3)      | Recoveries (4)    | (5)=(1)-(2)<br>+(3)-(4) | Provisions (6)      | Recoveries (7)    | ceded claim reserves<br>(8)=(6)-(7) |
| <u>Reported but not paid</u> |                               |                     |                     |                   |                         |                     |                   |                                     |
| Fire Insurance               | \$ 781,872                    | \$ 355,377          | \$ 26,087           | \$ 1,177          | \$ 451,405              | \$ 472,046          | \$ 145,581        | \$ 326,465                          |
| Marine Insurance             | 86,435                        | 286,551             | 850                 | 1,115             | ( 200,381)              | 46,596              | 224,181           | ( 177,585)                          |
| Automobile Insurance         | 594,692                       | 546,562             | 36,474              | 33,457            | 51,147                  | 100,009             | 74,787            | 25,222                              |
| Engineering Insurance        | 149,683                       | 72,735              | 11,898              | 10,692            | 78,154                  | 113,603             | 34,530            | 79,073                              |
| Personal accident Insurance  | 26,495                        | 26,612              | -                   | -                 | ( 117)                  | 16,605              | 9,051             | 7,554                               |
| Accident Insurance           | 212,758                       | 204,964             | 4,763               | 5,129             | 7,428                   | 90,068              | 86,321            | 3,747                               |
| Other Insurance              | 138,030                       | 53,765              | 4,531               | 4,250             | 84,546                  | 41,210              | 9,980             | 31,230                              |
|                              | <u>1,989,965</u>              | <u>1,546,566</u>    | <u>84,603</u>       | <u>55,820</u>     | <u>472,182</u>          | <u>880,137</u>      | <u>584,431</u>    | <u>295,706</u>                      |
| <u>Not reported</u>          |                               |                     |                     |                   |                         |                     |                   |                                     |
| Fire Insurance               | 6,006                         | 5,200               | 5,301               | 255               | 5,852                   | 519                 | 88                | 431                                 |
| Marine Insurance             | 11,857                        | 10,211              | -                   | -                 | 1,646                   | 5,054               | 2,380             | 2,674                               |
| Automobile Insurance         | 523,573                       | 452,980             | 134,093             | 96,286            | 108,400                 | 214,927             | 141,020           | 73,907                              |
| Engineering Insurance        | 11,992                        | 20,028              | 2,418               | 2,313             | ( 7,931)                | 5,532               | 13,292            | ( 7,760)                            |
| Personal accident Insurance  | 47,627                        | 29,288              | -                   | -                 | 18,339                  | 22,533              | 8,839             | 13,694                              |
| Accident Insurance           | 24,322                        | 19,705              | 658                 | 697               | 4,578                   | 4,306               | 4,048             | 258                                 |
| Other Insurance              | 19,592                        | 18,866              | 1,468               | 919               | 1,275                   | 13,774              | 13,313            | 461                                 |
|                              | <u>644,969</u>                | <u>556,278</u>      | <u>143,938</u>      | <u>100,470</u>    | <u>132,159</u>          | <u>266,645</u>      | <u>182,980</u>    | <u>83,665</u>                       |
|                              | <u>\$ 2,634,934</u>           | <u>\$ 2,102,844</u> | <u>\$ 228,541</u>   | <u>\$ 156,290</u> | <u>\$ 604,341</u>       | <u>\$ 1,146,782</u> | <u>\$ 767,411</u> | <u>\$ 379,371</u>                   |

Changes in claim reserves and ceded claim reserves:

| Item                            | 2017                |                     |
|---------------------------------|---------------------|---------------------|
|                                 | Claim reserve       | Ceded claim reserve |
| Amount at the beginning of year | \$ 2,863,475        | \$ 1,146,782        |
| Provisions made in current year | 2,423,547           | 778,858             |
| Recoveries made in current year | ( 2,863,475 )       | ( 1,146,782 )       |
| Amount at the end of year       | <u>\$ 2,423,547</u> | <u>\$ 778,858</u>   |

| Item                            | 2016                |                     |
|---------------------------------|---------------------|---------------------|
|                                 | Claim reserve       | Ceded claim reserve |
| Amount at the beginning of year | \$ 2,259,134        | \$ 767,411          |
| Provisions made in current year | 2,863,475           | 1,146,782           |
| Recoveries made in current year | ( 2,259,134 )       | ( 767,411 )         |
| Amount at the end of year       | <u>\$ 2,863,475</u> | <u>\$ 1,146,782</u> |

(IV) Special claim reserve

1. Details of special claim reserve:

| Nature         | Insurance category   | December 31, 2017   | December 31, 2016 |
|----------------|--|---------------------|-------------------|
| Major incident | Commercial earthquake insurance                                | \$ 98,652           | \$ 102,599        |
|                | Typhoon and flood insurance                                    | <u>69,085</u>       | <u>71,848</u>     |
|                |  | <u>167,737</u>      | <u>174,447</u>    |
| Change of risk | Mandatory automobile liabilities insurance for private vehicle | 59,513              | 106,249           |
|                | Mandatory commercial automobile liabilities insurance          | ( 107,204 )         | ( 109,849 )       |
|                | Mandatory motorcycle liabilities insurance                     | 586,743             | 564,505           |
|                | Nuclear risks insurance  | 74,687              | 74,687            |
|                | Commercial earthquake insurance                                | 587,411             | 587,411           |
|                | Typhoon and flood insurance                                    | 184,083             | 184,082           |
|                | Government-regulated earthquake insurance                      | <u>197,532</u>      | <u>197,532</u>    |
|                |  | <u>1,582,765</u>    | <u>1,604,617</u>  |
|                | <u>\$ 1,750,502</u>  | <u>\$ 1,779,064</u> |                   |

2. Special claim reserve - mandatory automobile/motorcycle liabilities insurance

| Item                            | 2017              | 2016              |
|---------------------------------|-------------------|-------------------|
| Amount at the beginning of year | \$ 560,905        | \$ 572,015        |
| Provisions made in current year | 24,883            | 5,481             |
| Recoveries made in current year | ( 46,736 )        | ( 16,591 )        |
| Amount at the end of year       | <u>\$ 539,052</u> | <u>\$ 560,905</u> |

3. Special claim reserve - voluntary automobile/motorcycle liabilities insurance

| Item                            | 2017                            |                     |                     |                   |                   |                     |
|---------------------------------|---------------------------------|---------------------|---------------------|-------------------|-------------------|---------------------|
|                                 | Special claim reserve liability |                     |                     | Special reserve   |                   |                     |
|                                 | Major incident                  | Change of risk      | Total               | Major incident    | Change of risk    | Total               |
| Amount at the beginning of year | \$ 174,447                      | \$ 1,043,712        | \$ 1,218,159        | \$ 369,671        | \$ 715,074        | \$ 1,084,745        |
| Provisions made in current year | -                               | -                   | -                   | 67,150            | 158,535           | 225,685             |
| Recoveries made in current year | ( 6,709 )                       | -                   | ( 6,709 )           | -                 | ( 44,896 )        | ( 44,896 )          |
| Amount at the end of year       | <u>\$ 167,738</u>               | <u>\$ 1,043,712</u> | <u>\$ 1,211,450</u> | <u>\$ 436,821</u> | <u>\$ 828,713</u> | <u>\$ 1,265,534</u> |
| Item                            | 2016                            |                     |                     |                   |                   |                     |
|                                 | Special claim reserve liability |                     |                     | Special reserve   |                   |                     |
|                                 | Major incident                  | Change of risk      | Total               | Major incident    | Change of risk    | Total               |
| Amount at the beginning of year | \$ 181,156                      | \$ 1,306,117        | \$ 1,487,273        | \$ 300,930        | \$ 640,230        | \$ 941,160          |
| Provisions made in current year | -                               | -                   | -                   | 68,741            | 107,170           | 175,911             |
| Recoveries made in current year | ( 6,709 )                       | ( 262,405 )         | ( 269,114 )         | -                 | ( 32,326 )        | ( 32,326 )          |
| Amount at the end of year       | <u>\$ 174,447</u>               | <u>\$ 1,043,712</u> | <u>\$ 1,218,159</u> | <u>\$ 369,671</u> | <u>\$ 715,074</u> | <u>\$ 1,084,745</u> |

Note 1: “Notes on Natural Disaster Insurance (Commercial Earthquake Insurance and Typhoon/Flood Insurance) Reserve Enhancement for Non-life Insurance Companies” issued by the competent authority in Letter No. Jin-Guan-Bao-Cai-10102515061 dated November 9, 2012 permitted the reclassification of special claim reserves for major incidents to special claim reserves for change of risk. The Company had yet to make full provision of special claim reserves for commercial earthquake and Typhoon/flood insurance at that time, and was therefore unable to reclassify balances to special reserves.

Note 2: If the Company had not adopted “Notes on Natural Disaster Insurance (Commercial Earthquake Insurance and Typhoon/Flood Insurance) Reserve Enhancement, Notes on Residential Earthquake Coinsurance

Members' Reserves and Rules on Nuclear Risks Insurance Reserves for Non-life Insurance Companies,” the amount of Insurance liability - Special claim reserve would have decreased by NT\$1,005,504,000 (net of NT\$205,946,000 tax impact) against an increase in special reserve of the same amount as at December 31, 2017; meanwhile, 2017 pre-tax profit would have fallen by NT\$6,709,000 and earnings per share would have reduced by NT\$0.02.

(V) Deficiency reserve

|                             | December 31, 2017  |                     |                                       |                                       |
|-----------------------------|--------------------|---------------------|---------------------------------------|---------------------------------------|
|                             | Deficiency reserve |                     | Deficiency reserve for ceded coverage | Retained insurance<br>(4)=(1)+(2)-(3) |
|                             | Direct insurance   | Assumed reinsurance | Ceded reinsurance<br>(Note)(3)        |                                       |
|                             | (1)                | (2)                 | (3)                                   |                                       |
| Aviation Insurance          | \$ 50              | \$ -                | \$ -                                  | \$ 50                                 |
| Typhoon and flood insurance | 6,342              | 751                 | -                                     | 7,093                                 |
| Fishing Vessel Insurance    | 4,254              | -                   | 4,254                                 | -                                     |
| Engineering insurance       | <u>6,420</u>       | <u>1,685</u>        | <u>-</u>                              | <u>8,105</u>                          |
|                             | <u>\$ 17,066</u>   | <u>\$ 2,436</u>     | <u>\$ 4,254</u>                       | <u>\$ 15,248</u>                      |
|                             | December 31, 2016  |                     |                                       |                                       |
|                             | Deficiency reserve |                     | Deficiency reserve for ceded coverage | Retained insurance<br>(4)=(1)+(2)-(3) |
|                             | Direct insurance   | Assumed reinsurance | Ceded reinsurance<br>(Note)(3)        |                                       |
|                             | (1)                | (2)                 | (3)                                   |                                       |
| Aviation Insurance          | \$ 22              | \$ 425              | \$ -                                  | \$ 447                                |
| Typhoon and flood insurance | 10,988             | 673                 | -                                     | 11,661                                |
| Fishing Vessel Insurance    | 4,855              | -                   | 4,855                                 | -                                     |
| Engineering insurance       | <u>2,489</u>       | <u>967</u>          | <u>-</u>                              | <u>3,456</u>                          |
|                             | <u>\$ 18,354</u>   | <u>\$ 2,065</u>     | <u>\$ 4,855</u>                       | <u>\$ 15,564</u>                      |

Note: Deficiency reserve for ceded coverage is presented under reinsurance contract assets.

(VI) Retained earned premium revenue

The following shows amount and calculation of retained earned gross premiums for the Company's mandatory and voluntary automobile liabilities insurance in 2017:

| Insurance category                         | Premium revenues<br>(1) | Reinsurance Premium<br>(2) | Reinsurance premiums expense<br>(3) | Retained premium<br>(4) = (1) + (2) -<br>(3) |
|--|-------------------------|----------------------------|-------------------------------------|--|
| Mandatory automobile liabilities insurance | \$ 788,137              | \$ 241,606                 | \$ 330,459                          | \$ 699,284                                   |
| Voluntary automobile liabilities insurance | <u>6,211,648</u>        | <u>138,820</u>             | <u>1,678,695</u>                    | <u>4,671,773</u>                             |
|  | <u>\$ 6,999,785</u>     | <u>\$ 380,426</u>          | <u>\$ 2,009,154</u>                 | <u>\$ 5,371,057</u>                          |

For the voluntary automobile liabilities insurance, a sum of NT\$11,768,000 was contributed to the stabilization fund using applicable percentages in 2017.

| Insurance category                         | Direct written insurance - unearned Premium reserve |                     | Assumed reinsurance - unearned Premium reserve |                   | Net change in unearned premium reserve<br>(9)=(5)-(6)<br>+(7)-(8) |
|--|---|---------------------|--|-------------------|---|
|  | Provisions (5)                                      | Recoveries (6)      | Provisions (7)                                 | Recoveries (8)    |   |
| Mandatory automobile liabilities insurance | \$ 316,341  | \$ 305,483          | \$ 138,637                                     | \$ 137,356        | \$ 12,139   |
| Voluntary automobile liabilities insurance | <u>3,402,702</u>                                    | <u>3,340,064</u>    | <u>60,161</u>                                  | <u>50,813</u>     | <u>71,986</u>   |
|  | <u>\$ 3,719,043</u>                                 | <u>\$ 3,645,547</u> | <u>\$ 198,798</u>                              | <u>\$ 188,169</u> | <u>\$ 84,125</u>  |

| Item                                       | Unearned premium reserve for ceded reinsurance |                     | Net change in unearned premium reserve for ceded reinsurance<br>(12)=<br>(10)-(11) | Retained and earned gross premiums<br>(13)=<br>(4)-(9)+(12) |
|--|--|---------------------|--|---|
|  | Provisions (10)                                | Recoveries (11)     |  |   |
| Mandatory automobile liabilities insurance | \$ 189,814                                     | \$ 183,359          | \$ 6,455   | \$ 693,600  |
| Voluntary automobile liabilities insurance | <u>1,027,067</u>                               | <u>1,076,876</u>    | ( <u>49,809</u> )  | <u>4,549,978</u>  |
|  | <u>\$ 1,216,881</u>                            | <u>\$ 1,260,235</u> | ( <u>\$ 43,354</u> )   | <u>\$ 5,243,578</u>   |

The following shows amount and calculation of retained earned gross premiums for the Company's mandatory and voluntary automobile liabilities insurance in 2016:

| Insurance category                         | Premium revenues<br>(1) | Reinsurance Premium<br>(2) | Reinsurance premiums expense<br>(3) | Retained premium<br>(4) = (1) + (2) -<br>(3) |
|--|-------------------------|----------------------------|-------------------------------------|--|
| Mandatory automobile liabilities insurance | \$ 747,381              | \$ 238,483                 | \$ 314,026                          | \$ 671,838                                   |
| Voluntary automobile liabilities insurance | <u>5,889,345</u>        | <u>127,305</u>             | <u>1,628,163</u>                    | <u>4,388,487</u>                             |
|  | <u>\$ 6,636,726</u>     | <u>\$ 365,788</u>          | <u>\$ 1,942,189</u>                 | <u>\$ 5,060,325</u>                          |

For the voluntary automobile liabilities insurance, a sum of NT\$11,209,000 was contributed to the stabilization fund using applicable percentages in 2016.

| Insurance category                         | Direct written insurance - unearned Premium reserve |                     | Assumed reinsurance - unearned Premium reserve |                   | Net change in unearned premium reserve<br>(9)=(5)-(6) |
|--|---|---------------------|--|-------------------|---|
|  | Provisions (5)                                      | Recoveries (6)      | Provisions (7)                                 | Recoveries (8)    | +(7)-(8)  |
| Mandatory automobile liabilities insurance | \$ 305,483  | \$ 298,731          | \$ 137,356                                     | \$ 127,600        | \$ 16,508   |
| Voluntary automobile liabilities insurance | <u>3,340,063</u>                                    | <u>3,293,733</u>    | <u>50,814</u>                                  | <u>55,586</u>     | <u>41,558</u>   |
|  | <u>\$ 3,645,546</u>                                 | <u>\$ 3,592,464</u> | <u>\$ 188,170</u>                              | <u>\$ 183,186</u> | <u>\$ 58,066</u>                                      |

| Item                                       | Unearned premium reserve for ceded reinsurance |                     | Net change in unearned premium reserve for ceded reinsurance<br>(12)=<br>(10)-(11) | Retained and earned gross premiums<br>(13)=<br>(4)-(9)+(12) |
|--|--|---------------------|--|---|
|  | Provisions (10)                                | Recoveries (11)     |  |   |
| Mandatory automobile liabilities insurance | \$ 183,359                                     | \$ 175,474          | \$ 7,885   | \$ 663,215  |
| Voluntary automobile liabilities insurance | <u>1,076,876</u>                               | <u>1,078,064</u>    | ( <u>1,188</u> )   | <u>4,345,741</u>  |
|  | <u>\$ 1,260,235</u>                            | <u>\$ 1,253,538</u> | <u>\$ 6,697</u>  | <u>\$ 5,008,956</u>   |

(VII) Retained claims

The following shows amount and calculation of retained claims for the Company's mandatory and voluntary automobile liabilities insurance as at December 31, 2017:

| Insurance category                            | Insurance claims<br>(including<br>claim-related<br>expenses)<br>(1) | Claims paid to<br>reinsurers<br>(2) | Claims<br>recovered from<br>reinsurers<br>(3) | Retained claims<br>(4) = (1) + (2) -<br>(3) |
|---|---|-------------------------------------|---|---|
| Mandatory automobile<br>liabilities insurance | \$ 634,772  | \$ 195,290                          | \$ 369,734                                    | \$ 460,328                                  |
| Voluntary automobile<br>liabilities insurance | <u>3,687,417</u>  | <u>38,605</u>                       | <u>1,020,893</u>                              | <u>2,705,129</u>                            |
|   | <u>\$ 4,322,189</u>   | <u>\$ 233,895</u>                   | <u>\$ 1,390,627</u>                           | <u>\$ 3,165,457</u>                         |

The following shows amount and calculation of retained claims for the Company's mandatory and voluntary automobile liabilities insurance as at December 31, 2016:

| Insurance category                            | Insurance claims<br>(including<br>claim-related<br>expenses)<br>(1) | Claims paid to<br>reinsurers<br>(2) | Claims<br>recovered from<br>reinsurers<br>(3) | Retained claims<br>(4) = (1) + (2) -<br>(3) |
|---|---|-------------------------------------|---|---|
| Mandatory automobile<br>liabilities insurance | \$ 507,714  | \$ 176,338                          | \$ 260,171                                    | \$ 423,881                                  |
| Voluntary automobile<br>liabilities insurance | <u>3,256,371</u>  | <u>64,852</u>                       | <u>882,547</u>                                | <u>2,438,676</u>                            |
|   | <u>\$ 3,764,085</u>   | <u>\$ 241,190</u>                   | <u>\$ 1,142,718</u>                           | <u>\$ 2,862,557</u>                         |

(VIII) Policyholders' reported claims liability

Policyholders' reported and paid/unpaid claims liability:

December 31, 2017

|                                | Insurance<br>claims payable |                          | Claim reserves    |                     |
|--------------------------------|-----------------------------|--------------------------|-------------------|---------------------|
|                                | Reported and<br>paid        | Reported but<br>not paid | Not reported      | Total               |
| Fire Insurance                 | \$ -                        | \$ 421,204               | \$ 10,400         | \$ 431,604          |
| Marine insurance               | -                           | 78,354                   | 7,386             | 85,740              |
| Automobile<br>Insurance        | 17,443                      | 647,382                  | 751,790           | 1,399,172           |
| Engineering<br>Insurance       | -                           | 69,576                   | 20,363            | 89,939              |
| Personal accident<br>Insurance | 1,401                       | 20,524                   | 42,869            | 63,393              |
| Accident<br>Insurance          | 112                         | 218,537                  | 22,644            | 241,181             |
| Other Insurance                | <u>670</u>                  | <u>93,789</u>            | <u>18,729</u>     | <u>112,518</u>      |
|                                | <u>\$ 19,626</u>            | <u>\$ 1,549,366</u>      | <u>\$ 874,181</u> | <u>\$ 2,423,547</u> |

December 31, 2016

|                             | Insurance claims payable |                       | Claim reserves    |                     |
|-----------------------------|--------------------------|-----------------------|-------------------|---------------------|
|                             | Reported and paid        | Reported but not paid | Not reported      | Total               |
| Fire Insurance              | \$ 55                    | \$ 807,959            | \$ 11,307         | \$ 819,266          |
| Marine Insurance            | 23                       | 87,285                | 11,857            | 99,142              |
| Automobile Insurance        | 31                       | 631,166               | 657,666           | 1,288,832           |
| Engineering Insurance       | 305                      | 161,581               | 14,410            | 175,991             |
| Personal accident Insurance | 1,761                    | 26,495                | 47,627            | 74,122              |
| Accident Insurance          | 238                      | 217,521               | 24,980            | 242,501             |
| Other Insurance             | <u>1,030</u>             | <u>142,561</u>        | <u>21,060</u>     | <u>163,621</u>      |
|                             | <u>\$ 3,443</u>          | <u>\$ 2,074,568</u>   | <u>\$ 788,907</u> | <u>\$ 2,863,475</u> |

Reinsurance contract asset - claims recoverable from reinsurers for obligatory payments made to policyholders:

| Insurance category            | December 31, 2017 |                   |                   |
|-------------------------------|-------------------|-------------------|-------------------|
|                               | Actual payments   | Reported and paid | Total             |
| Fire Insurance                | \$ 21,427         | \$ -              | \$ 21,427         |
| Marine Insurance              | 2,884             | -                 | 2,884             |
| Automobile Insurance          | 138,765           | 2,442             | 141,207           |
| Engineering insurance         | 9,180             | -                 | 9,180             |
| Personal accident Insurance   | 30,526            | 1,078             | 31,604            |
| Accident Insurance            | 8,624             | 53                | 8,677             |
| Other Insurance               | <u>20,353</u>     | <u>502</u>        | <u>20,855</u>     |
|                               | 231,759           | 4,075             | 235,834           |
| Less: doubtful debt provision | ( <u>1,179</u> )  | -                 | ( <u>1,179</u> )  |
| Net value                     | <u>\$ 230,580</u> | <u>\$ 4,075</u>   | <u>\$ 234,655</u> |



| Insurance category            | December 31, 2016 |                   |                   |
|-------------------------------|-------------------|-------------------|-------------------|
|                               | Actual payments   | Reported and paid | Total             |
| Fire Insurance                | \$ 51,828         | \$ 2              | \$ 51,830         |
| Marine Insurance              | 656               | -                 | 656               |
| Automobile Insurance          | 69,987            | -                 | 69,987            |
| Engineering insurance         | 11,603            | 229               | 11,832            |
| Personal accident Insurance   | 41,037            | 1,599             | 42,636            |
| Accident Insurance            | 8,521             | 108               | 8,629             |
| Other Insurance               | <u>14,855</u>     | <u>581</u>        | <u>15,436</u>     |
|                               | 198,487           | 2,519             | 201,006           |
| Less: doubtful debt provision | ( <u>1,005</u> )  | <u>-</u>          | ( <u>1,005</u> )  |
| Net value                     | <u>\$ 197,482</u> | <u>\$ 2,519</u>   | <u>\$ 200,001</u> |

Reinsurance contract asset - please refer to Note 36(3) for the amount of ceded claim reserve provided on policyholders' reported and unpaid and unreported claims liability.

(IX) Retention limits by insurance category

| Insurance category       | 2017       | 2016       |
|--------------------------|------------|------------|
| Fire Insurance           | \$ 250,000 | \$ 250,000 |
| Engineering Insurance    | 250,000    | 250,000    |
| Liabilities Insurance    | 150,000    | 100,000    |
| Cargo Insurance          | 75,000     | 75,000     |
| Vessel hull Insurance    | 60,000     | 60,000     |
| Fishing Vessel Insurance | 60,000     | 60,000     |

(Continued next page)

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| Insurance category  | 2017      | 2016      |
|---|-----------|-----------|
| Automobile hull insurance                                 | \$ 13,800 | \$ 15,000 |
| Automobile third-party liability insurance (per incident) | 110,400   | 200,000   |
| Automobile passenger liability insurance (per incident)   | 460,000   | 500,000   |
| Personal accident insurance                               | 30,000    | 30,000    |
| Health insurance  | 2,000     | 2,000     |

(X) Acquisition costs for insurance contracts

|                             | 2017                |                   |                                 | Total              |
|-----------------------------|---------------------|-------------------|---------------------------------|--------------------|
|                             | Commission Expenses | Service Charges   | Reinsurance commission expenses |                    |
| Fire Insurance              | \$ 82,871           | \$ -              | \$ 3,149                        | \$ 86,020          |
| Marine Insurance            | 28,087              | -                 | 4,524                           | 32,611             |
| Auto Insurance              | 595,838             | 134,199           | -                               | 730,037            |
| Engineering Insurance       | 9,519               | -                 | 4,154                           | 13,673             |
| Personal accident Insurance | 89,870              | -                 | 141                             | 90,011             |
| Casualty Insurance          | 50,786              | -                 | 2,232                           | 53,018             |
| Others                      | 26,153              | -                 | 1,190                           | 27,343             |
|                             | <u>\$ 883,124</u>   | <u>\$ 134,199</u> | <u>\$ 15,390</u>                | <u>\$1,032,713</u> |

|                             | 2016                |                   |                                 | Total              |
|-----------------------------|---------------------|-------------------|---------------------------------|--------------------|
|                             | Commission Expenses | Service Charges   | Reinsurance commission expenses |                    |
| Fire Insurance              | \$ 86,220           | \$ -              | \$ 2,987                        | \$ 89,207          |
| Marine Insurance            | 31,715              | -                 | 3,081                           | 34,796             |
| Automobile Insurance        | 570,260             | 132,072           | ( 1 )                           | 702,331            |
| Engineering Insurance       | 9,679               | -                 | 3,968                           | 13,647             |
| Personal accident Insurance | 88,192              | -                 | 83                              | 88,275             |
| Accident Insurance          | 50,225              | -                 | 3,115                           | 53,340             |
| Other Insurance             | 30,348              | -                 | 1,608                           | 31,956             |
|                             | <u>\$ 866,639</u>   | <u>\$ 132,072</u> | <u>\$ 14,841</u>                | <u>\$1,013,552</u> |

None of the insurance contract acquisition cost above was recognized on a deferred basis.

## (XI) Insurance profitability analysis

## Profitability analysis for direct underwritten insurance:

| 2017                        |                      |  |   |  |                                  |  |
|-----------------------------|----------------------|--|---|--|----------------------------------|--|
|                             | Premium revenues (1) | Net change in unearned premium reserve (2) | Insurance contract Acquisition cost (3) | Insurance claims (including claim-related expenses)(4) | Net change in claims reserve (5) | Profit (loss) on insurance (6)=(1)-(2)-(3)-(4)-(5) |
| Fire insurance              | \$ 758,743           | (\$ 49,048)                                | \$ 82,871                               | \$ 704,849   | (\$ 389,405)                     | \$ 409,476   |
| Marine Insurance            | 379,368              | ( 12,795)                                  | 28,087                                  | 149,616  | ( 14,405)                        | 228,865  |
| Auto Insurance              | 4,317,972            | 113,339                                    | 730,037                                 | 2,670,540  | 99,323                           | 704,733  |
| Engineering Insurance       | 104,169              | ( 11,884)                                  | 9,519                                   | 128,264  | ( 86,505)                        | 64,775   |
| Personal accident Insurance | 552,007              | 50,256                                     | 89,870                                  | 329,614  | ( 10,735)                        | 93,002   |
| Casualty Insurance          | 353,172              | ( 2,460)                                   | 50,786                                  | 152,973  | ( 2,461)                         | 154,334  |
| Others                      | <u>534,354</u>       | <u>( 13,912)</u>                           | <u>26,153</u>                           | <u>186,333</u>   | <u>( 48,940)</u>                 | <u>384,720</u>                                     |
|                             | <u>\$ 6,999,785</u>  | <u>\$ 73,496</u>                           | <u>\$ 1,017,323</u>                     | <u>\$ 4,322,189</u>                                    | <u>(\$ 453,128)</u>              | <u>\$ 2,039,905</u>                                |
| 2016                        |                      |  |   |  |                                  |  |
|                             | Premium revenues (1) | Net change in unearned premium reserve (2) | Insurance contract Acquisition cost (3) | Insurance claims (including claim-related expenses)(4) | Net change in claims reserve (5) | Profit (loss) on insurance (6)=(1)-(2)-(3)-(4)-(5) |
| Fire Insurance              | \$ 729,022           | (\$ 41,702)                                | \$ 86,220                               | \$ 502,155   | \$ 427,301                       | (\$ 244,952)                                       |
| Marine Insurance            | 380,523              | 16,181                                     | 31,715                                  | 309,132  | ( 198,470)                       | 221,965  |
| Automobile Insurance        | 4,043,563            | 85,938                                     | 702,332                                 | 2,319,588  | 118,723                          | 816,982  |
| Engineering Insurance       | 85,960               | ( 31,056)                                  | 9,679                                   | 63,492   | 68,912                           | ( 25,067)  |
| Personal accident Insurance | 507,250              | 29,477                                     | 88,192                                  | 276,362  | 18,222                           | 94,997   |
| Accident Insurance          | 335,890              | 7,689                                      | 50,225                                  | 123,370  | 12,411                           | 142,195  |
| Other Insurance             | <u>554,518</u>       | <u>( 13,444)</u>                           | <u>30,348</u>                           | <u>169,986</u>   | <u>84,991</u>                    | <u>282,637</u>                                     |
|                             | <u>\$ 6,636,726</u>  | <u>\$ 53,083</u>                           | <u>\$ 998,711</u>                       | <u>\$ 3,764,085</u>                                    | <u>\$ 532,090</u>                | <u>\$ 1,288,757</u>                                |

## Profitability analysis for assumed reinsurance:

| 2017                        |                         |  |                                    |                        |                                  |  |
|-----------------------------|-------------------------|--|------------------------------------|------------------------|----------------------------------|--|
|                             | Reinsurance Premium (1) | Net change in unearned premium reserve (2) | Reinsurance commission expense (3) | Reinsurance claims (4) | Net change in claims reserve (5) | Profit (loss) on assumed reinsurance (6)=(1)-(2)-(3)-(4)-(5) |
| Fire Insurance              | \$ 32,278               | \$ 5,910                                   | \$ 3,149                           | \$ 711                 | \$ 1,743                         | \$ 20,765  |
| Marine Insurance            | 25,564                  | 4,133                                      | 4,524                              | 23,614                 | 1,003                            | ( 7,710)   |
| Auto Insurance              | 241,597                 | 1,253                                      | -                                  | 195,291                | 11,016                           | 34,037   |
| Engineering Insurance       | 14,345                  | 521  | 4,154                              | 7,101                  | 453                              | 2,116  |
| Personal accident Insurance | 3,321                   | 198  | 141                                | 173                    | 6                                | 2,803  |
| Casualty Insurance          | 19,380                  | ( 1,995)                                   | 2,232                              | 4,368                  | 1,140                            | 13,635   |
| Others                      | <u>43,941</u>           | <u>609</u>                                 | <u>1,190</u>                       | <u>2,637</u>           | <u>( 2,161)</u>                  | <u>41,666</u>  |
|                             | <u>\$ 380,426</u>       | <u>\$ 10,629</u>                           | <u>\$ 15,390</u>                   | <u>\$ 233,895</u>      | <u>\$ 13,200</u>                 | <u>\$ 107,312</u>  |

## 2016

|                                   | Reinsurance<br>Premium<br>(1) | Net change in<br>unearned<br>premium<br>reserve<br>(2) | Reinsurance<br>commission<br>expense (3) | Reinsurance<br>claims (4) | Net change in<br>claims reserve<br>(5) | Profit (loss) on<br>assumed<br>reinsurance<br>(6)=(1)-(2)-(3)<br>-(4)-(5) |
|-----------------------------------|-------------------------------|--|--|---------------------------|--|---|
| Fire Insurance                    | \$ 22,959                     | \$ 216   | \$ 2,987                                 | \$ 3,019                  | \$ 29,956                              | (\$ 13,219)   |
| Marine<br>Insurance               | 18,409                        | ( 7,178)   | 3,081                                    | 38,069                    | ( 265)                                 | ( 15,298)   |
| Automobile<br>Insurance           | 238,529                       | 9,739  | ( 1)                                     | 176,381                   | 40,824                                 | 11,586  |
| Engineering<br>Insurance          | 13,632                        | 433  | 3,968                                    | 7,950                     | 1,311                                  | ( 30)   |
| Personal<br>accident<br>Insurance | 3,116                         | 373  | 83                                       | 196                       | -                                      | 2,464   |
| Accident<br>Insurance             | 23,464                        | 314  | 3,115                                    | 3,078                     | ( 405)                                 | 17,362  |
| Other Insurance                   | 45,679                        | 1,086  | 1,608                                    | 12,497                    | 830                                    | 29,658  |
|                                   | <u>\$ 365,788</u>             | <u>\$ 4,983</u>  | <u>\$ 14,841</u>                         | <u>\$ 241,190</u>         | <u>\$ 72,251</u>                       | <u>\$ 32,523</u>  |

## Current profit/loss recognized on ceded insurance contracts:

## 2017

|                                   | Reinsurance<br>premiums<br>expense<br>(1) | Net change in<br>ceded<br>unearned<br>premium<br>reserve<br>(2) | Reinsurance<br>commission<br>revenue (3) | Claims<br>recovered<br>from<br>reinsurers<br>(4) | Net change in<br>ceded claim<br>reserves<br>(5) | Profit (loss) on<br>ceded<br>reinsurance<br>(6)=(1)-(2)-(3)<br>-(4)-(5) |
|-----------------------------------|---|---|--|--|---|---|
| Fire Insurance                    | \$ 320,586                                | (\$ 61,273)   | \$ 28,943                                | \$ 318,704                                       | (\$ 272,676)                                    | \$ 306,888  |
| Marine<br>Insurance               | 113,497                                   | ( 10,460)   | 15,448                                   | 46,887   | ( 36,837)                                       | 98,459  |
| Auto Insurance                    | 691,588                                   | 15,496  | 138,046                                  | 579,284  | 45,127  | ( 86,365)   |
| Engineering<br>Insurance          | 72,923                                    | ( 20,994)   | 8,578                                    | 87,032   | ( 74,022)                                       | 72,329  |
| Personal<br>accident<br>Insurance | 252,121                                   | 50,264  | 51,175                                   | 196,667  | ( 9,173)  | ( 36,812)   |
| Casualty<br>Insurance             | 108,653                                   | 650   | 35,631                                   | 50,650   | ( 1,342)  | 23,064  |
| Others                            | 449,786                                   | ( 17,037)   | 11,137                                   | 111,403  | ( 19,001)                                       | 363,284   |
|                                   | <u>\$ 2,009,154</u>                       | <u>(\$ 43,354)</u>  | <u>\$ 288,958</u>                        | <u>\$ 1,390,627</u>                              | <u>(\$ 367,924)</u>                             | <u>\$ 740,847</u>   |

## 2016

|                                   | Reinsurance<br>premiums<br>expense<br>(1) | Net change in<br>ceded<br>unearned<br>premium<br>reserve<br>(2) | Reinsurance<br>commission<br>revenue (3) | Claims<br>recovered<br>from<br>reinsurers<br>(4) | Net change in<br>ceded claim<br>reserves<br>(5) | Profit (loss) on<br>ceded<br>reinsurance<br>(6)=(1)-(2)-(3)<br>-(4)-(5) |
|-----------------------------------|---|---|--|--|---|---|
| Fire Insurance                    | \$ 288,996                                | (\$ 26,292)   | \$ 38,045                                | \$ 151,508                                       | \$ 326,896                                      | (\$ 201,161)  |
| Marine<br>Insurance               | 124,234                                   | 5,456   | 14,555                                   | 210,389  | ( 174,911)                                      | 68,745  |
| Automobile<br>Insurance           | 661,983                                   | 29,318  | 128,455                                  | 450,641  | 99,129  | ( 45,560)   |
| Engineering<br>Insurance          | 76,207                                    | ( 29,787)   | 12,671                                   | 36,108   | 71,312  | ( 14,097)   |
| Personal<br>accident<br>Insurance | 222,755                                   | 43,935  | 43,342                                   | 149,040  | 21,248  | ( 34,810)   |
| Accident<br>Insurance             | 104,362                                   | ( 2,379)  | 33,148                                   | 36,704   | 4,006   | 32,883  |
| Other Insurance                   | 463,652                                   | ( 13,554)   | 15,104                                   | 108,328  | 31,691  | 322,083   |
|                                   | <u>\$ 1,942,189</u>                       | <u>\$ 6,697</u>   | <u>\$ 285,320</u>                        | <u>\$ 1,142,718</u>                              | <u>\$ 379,371</u>                               | <u>\$ 128,083</u>   |

(XII) Information on insurance risks

1. Sensitivity analysis for insurance risks

The Company conducts sensitivity analysis on major assumptions that have the potential to affect claim reserves, such as average cost of claim, claim-related expenses and number of claim cases. Impacts on claim reserves are established by making reasonable and possible changes to one assumption while holding other major assumptions constant. For example, a change to the variable “average cost of claim” would result in a proportional change in claim reserves. Detailed analysis is presented below:

| December 31, 2017         |                                |                              |                          |                                       |
|---------------------------|--------------------------------|------------------------------|--------------------------|---------------------------------------|
| Single-variable Variation | Effect on gross claims reserve | Effect on net claims reserve | Effect on pre-tax profit | Effect on owners' equity (before tax) |
|                           | Increase (decrease)            | Increase (decrease)          | Increase (decrease)      | Increase (decrease)                   |
| Average cost of claim     | 5%                             | \$ 87,742                    | \$ 63,357                | (\$ 63,357)                           |

Note: The above analysis does not include mandatory automobile liabilities insurance, nuclear risks insurance, and government-regulated earthquake insurance.

2. Explanation to concentration of insurance risks

The Company sets retention limits depending on the risks associated with individual insurance categories. Risks are transferred away through the use of reinsurance, which reduces concentration of insurance risks and the impacts they have on the Company. Risk concentration by business category is explained below:

|                             | 2017                            |               | 2017                                |               |
|-----------------------------|---------------------------------|---------------|-------------------------------------|---------------|
|                             | Direct written Premium revenues | %             | Cumulative retained premiums (Note) | %             |
| Fire Insurance              | \$ 758,743                      | 10.84         | \$ 471,617                          | 8.78          |
| Marine Insurance            | 379,368                         | 5.42          | 291,435                             | 5.43          |
| Automobile Insurance        | 4,317,972                       | 61.69         | 3,867,981                           | 72.02         |
| Engineering Insurance       | 104,169                         | 1.49          | 45,591                              | 0.85          |
| Personal accident Insurance | 552,007                         | 7.89          | 303,207                             | 5.64          |
| Accident Insurance          | 353,172                         | 5.04          | 263,899                             | 4.91          |
| Other Insurance             | <u>534,354</u>                  | <u>7.63</u>   | <u>127,327</u>                      | <u>2.37</u>   |
|                             | <u>\$ 6,999,785</u>             | <u>100.00</u> | <u>\$ 5,371,057</u>                 | <u>100.00</u> |

Note: represents the sum of premium revenue, reinsurance premium revenue and reinsurance premium expense.

## Claims trends

Trend analysis for claims on direct insurance is as follows:

| Year of accident | December 31, 2017 |              |              |              |              |              |
|------------------|-------------------|--------------|--------------|--------------|--------------|--------------|
|                  | Year count        |              |              |              |              |              |
|                  | 1                 | 2            | 3            | 4            | 5            | 6            |
| ≤ 2012           | \$22,466,535      | \$22,502,212 | \$22,511,610 | \$22,516,189 | \$22,488,170 | \$22,510,567 |
| 2013             | 2,585,897         | 2,701,193    | 2,717,649    | 2,734,086    | 2,745,448    |              |
| 2014             | 2,463,011         | 2,682,716    | 2,686,795    | 2,704,880    |              |              |
| 2015             | 3,062,421         | 3,211,281    | 3,211,712    |              |              |              |
| 2016             | 3,518,890         | 3,768,046    |              |              |              |              |
| 2017             | 2,844,485         |              |              |              |              |              |

Note: The above table does not include mandatory automobile liabilities insurance, nuclear risks insurance, and government-regulated earthquake insurance.

### (XIII) Credit risk, liquidity risk and market risk of insurance contracts

#### 1. Credit risk

All reinsurance contracts held by the Company are evaluated according to “Regulations Governing Insurance Enterprises Engaging in Operating Reinsurance and Other Risk Spreading Mechanisms.”

As at December 31, 2017 and 2016, the Company was not required to provide substandard reinsurance reserves on its regulatory reports.

#### 2. Liquidity risk

The Company manages liquidity risk of its insurance contracts in three liquidity levels: Normal, Cautious and Critical. The Company's liquidity position as at December 31, 2017 was considered to be at the Normal level, which posed no concern of liquidity risk.

#### 3. Market risk

None of the insurance contracts and reinsurance contracts issued or held by the Company involved any significant market risk.

### (XIV) Assets, liabilities, revenues and costs of mandatory automobile liabilities insurance

#### 1. Assets and liabilities of mandatory automobile liabilities insurance

| Item  | Amount              |                     | Item  | Amount              |                     |
|---|---------------------|---------------------|---|---------------------|---------------------|
|   | December 31, 2017   | December 31, 2016   |   | December 31, 2017   | December 31, 2016   |
|   | ASSETS              |                     |   | Liabilities         |                     |
| Cash and bank deposits (Note)               | \$ 1,074,067        | \$ 1,134,369        | Notes payable                               | \$ -                | \$ -                |
| Cash equivalents                            | -                   | -                   | Claims Payable                              | 1,017               | -                   |
| Notes receivable                            | 12,806              | 12,227              | Claims payable to reinsurers                | -                   | -                   |
| Premiums receivable                         | 12,464              | 8,109               | Reinsurance Accounts Payable                | 62,324              | 29,316              |
| Claims recoverable from reinsurers          | 88,766              | 21,493              | Unearned premium reserve                    | 454,978             | 442,839             |
| Reinsurance accounts receivable             | 50,104              | 19,741              | Claim reserve                               | 665,957             | 596,355             |
| Other Receivable                            | 375                 | 2,446               | Special claim reserve                       | 539,052             | 560,905             |
| Available-for-Sale Financial Assets         | -                   | -                   | Receipts in suspense and pending settlement | 22                  | -                   |
| Ceded unearned premium reserve              | 189,814             | 183,359             | Other liabilities                           | -                   | -                   |
| Ceded claim reserve                         | 291,172             | 245,127             |   |                     |                     |
| Payments in suspense and pending settlement | 3,782               | 2,544               |   |                     |                     |
| Other assets                                | -                   | -                   |   |                     |                     |
| <b>Total assets</b>                         | <b>\$ 1,723,350</b> | <b>\$ 1,629,415</b> | <b>Total liabilities</b>                    | <b>\$ 1,723,350</b> | <b>\$ 1,629,415</b> |

Note: As at December 31, 2017 and 2016, NT\$58,067,000 and NT\$95,369,000 of which were presented as cash, while NT\$1,016,000,000 and NT\$1,039,000,000 of which were presented as other financial assets, respectively.

2. Revenues and costs of mandatory automobile liabilities insurance

(in NT\$ 1,000)

|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Operating Revenue                      |                   |                   |
| Pure premium revenue                   | \$ 550,763        | \$ 523,307        |
| Reinsurance Premium                    | <u>241,606</u>    | <u>238,483</u>    |
| Premium revenues                       | 792,369           | 761,790           |
| Less: reinsurance premiums expense     | ( 330,459)        | ( 314,026)        |
| Net change in unearned premium reserve | ( <u>5,684</u> )  | ( <u>8,625</u> )  |
| Retained Earned Premium                | 456,226           | 439,139           |
| Interest Income                        | <u>5,806</u>      | <u>6,338</u>      |
| Total Operating Revenue                | <u>\$ 462,032</u> | <u>\$ 445,477</u> |

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|  | 2017              | 2016              |
|--|-------------------|-------------------|
| Operating Cost   |                   |                   |
| Insurance claims (including reinsurance claims, which amounted to NT\$195,290,000 and NT\$176,338,000, respectively) | \$ 830,062        | \$ 684,052        |
| Less: Claims recovered from reinsurers   | ( 369,734)        | ( 260,171)        |
| Retained claims  | 460,328           | 423,881           |
| Net Change in Reserve for Claim  | 23,557            | 32,706            |
| Net Change in Reserve for Special Claim  | ( 21,853)         | ( 11,110)         |
| Total Operating Costs  | <u>\$ 462,032</u> | <u>\$ 445,477</u> |

XXXVII. Other disclosures

(I) Major transactions:

1. Acquisition of real estate properties amounting to more than NT\$100 million or 20% of paid up capital: None.
2. Disposal of real estate properties amounting to more than NT\$100 million or 20% of paid up capital: None.
3. Core business transactions conducted with related parties that amount to more than NT\$100 million or more than 20% of paid-up capital: None.
4. Related party receivables amounting to more than NT\$100 million or 20% of paid up capital: None.
5. Trading of derivatives: None.

(II) Information on invested businesses: None.

(III) Information relating to investments in the Mainland: None.

XXXVIII. Segment information

Non-life insurance was the Company's primary and only major business segment in 2017 and 2016, therefore segment-by-segment disclosure of financial information is not required.



- VI Latest audited consolidated financial statements: None.
- VII. Any financial distress experienced by the Company or its affiliated enterprise and impacts on the Company's financial status in the last year up till the publication date of this annual report: None.

## Seven. Review of financial position, business performance and risk issues

### I. Comparative analysis of financial position

(in NT\$ 1,000)

| Item \ Year                   | 2017         | 2016         | Variation   |       |
|-------------------------------|--------------|--------------|-------------|-------|
|                               |              |              | Amount      | %     |
| Cash and cash equivalents     | \$ 1,157,174 | \$ 1,231,822 | (\$ 74,648) | ( 6)  |
| Receivables                   | 593,893      | 584,878      | 9,015       | 2     |
| Financial assets and loans    | 8,568,649    | 8,208,131    | 360,518     | 4     |
| Reinsurance Contracts Assets  | 2,473,583    | 2,758,745    | ( 285,162)  | ( 10) |
| Property, Plant and Equipment | 626,390      | 622,106      | 4,284       | 1     |
| Intangible Assets             | 12,611       | 15,747       | ( 3,136)    | ( 20) |
| Other assets                  | 1,557,269    | 1,555,229    | 2,040       | -     |
| Total assets                  | 14,989,569   | 14,976,658   | 12,911      | -     |
| Payables                      | 764,602      | 682,912      | 81,690      | 12    |
| Liability reserves            | 8,317,402    | 8,711,701    | ( 394,299)  | ( 5)  |
| Other liabilities             | 209,087      | 208,183      | 904         | -     |
| Total liabilities             | 9,291,091    | 9,602,796    | ( 311,705)  | ( 3)  |
| Share capital                 | 3,011,638    | 3,011,638    | -           | -     |
| Retained Earnings             | 2,660,677    | 2,402,882    | 257,795     | 11    |
| Other equity items            | 26,163       | ( 40,658)    | 66,821      | 164   |
| Total equity                  | 5,698,478    | 5,373,862    | 324,616     | 6     |

Explanation to significant variations amounting to NT\$10 million or 20% or above:

Increase in other equity items in 2017 over 2016 was mainly due to increase of unrealized gains on available-for-sale financial assets in 2017.

## II. Analysis of financial performance

(in NT\$ 1,000)

| Item  | 2017              | 2016              | Amount increase (decrease) | Variation % |
|---|-------------------|-------------------|----------------------------|-------------|
| Operating Revenue                             | \$ 5,881,343      | \$ 5,613,575      | \$ 267,768                 | 5           |
| Operating Cost                                | 4,122,629         | 3,844,794         | 277,835                    | 7           |
| Operating Expense                             | <u>1,242,794</u>  | <u>1,203,086</u>  | 39,708                     | 3           |
| TOTAL OPERATING INCOME                        | 515,920           | 565,695           | ( 49,775 )                 | ( 9 )       |
| Non-operating income and expenses             | ( <u>386</u> )    | ( <u>1,440</u> )  | 1,054                      | 73          |
| Pre-tax profit from continuing operations     | 515,534           | 564,255           | ( 48,721 )                 | ( 9 )       |
| Income tax                                    | <u>55,224</u>     | <u>84,500</u>     | ( 29,276 )                 | ( 35 )      |
| Current net income from continuing operations | <u>\$ 460,310</u> | <u>\$ 479,755</u> | ( 19,445 )                 | ( 4 )       |

(I). Explanation to significant variations of 10% or above:

- Increase in non-operating income and expenses in 2017 over 2016 was mainly due to a decrease of property obsolescence loss in 2017.
- Decrease in income tax expense in 2017 over 2016 was mainly due to a decrease of taxable income in 2017.

(II). Future response plans: The Company shall continue focusing on its core business activities while at the same time explore improvements with a focus on stability, pragmatism, and innovation. In terms of asset allocation, the Company will strive to raise capital efficiency and asset yields.

## III. Cash flow variation analysis

(in NT\$ 1,000)

| Opening cash balance | Net cash flow from operating activities for the year | Cash outflow for the year | Cash surplus (deficit) | Financing of cash deficits |                 |
|----------------------|--|---------------------------|------------------------|----------------------------|-----------------|
|                      |  |                           |                        | Investment plans           | Financing plans |
| 1,231,822            | 130,755  | (205,403)                 | 1,157,174              | -                          | -               |

- Analysis of cash flow for the year:
  - Operating activities: Net cash inflow of NT\$130,755,000 was mainly due to disposal of available-for-sale financial assets during the year.
  - Investing activities: Net cash outflow of NT\$9,647,000 was mainly due to acquisition of property, plants and equipment and intangible assets.
  - Financing activities: Net cash outflow of NT\$195,756,000 was mainly due to payment of cash dividends.
- Responsive measures and liquidity analysis for cash flow deficit: None.
- Liquidity analysis for the next year:

| Opening cash balance | Projected net cash flow from operating activities for the year | Expected cash outflow for the year | Expected cash surplus (deficit) | Financing of projected cash deficits |                 |
|----------------------|--|------------------------------------|---------------------------------|--------------------------------------|-----------------|
|                      |  |                                    |                                 | Investment plans                     | Financing plans |
| 1,157,174            | 315,284  | (300,339)                          | 1,172,119                       | -                                    | -               |

IV. Material capital expenditures in the last year and impacts on business performance: None.

V. Causes of profit or loss incurred on investments in the last year, and any improvements or investments planned for the next year: None.

VI. Risk management issues in the last year up till the publication date of this annual report that were subject to evaluation:

(I) Impact of interest rate, exchange rate, and inflation on the company's earnings, and responsive measures:

1. Interest rate: Driven by the consistent expansion of advanced and emerging economies, growth rate of the global economy should continue to rise in 2018. With respect to domestic interest rates, the Central Bank has decided to maintain its interest rate policy unchanged during the board meeting held on March 22, 2018, on the basis of moderate inflationary pressure, low inflation rate, sound real interest rate level compared to leading economies, uncertainties in the global economic outlook, possible fall of domestic growth rate compared to the previous year, and actual output being lower than potential output. The Central Bank's decision will help stabilize price levels and the financial market, and stimulate growth of the economy. The Central Bank's decision to maintain rediscount rate, the rate on accommodations with collateral, and rate on accommodations without collateral unchanged at 1.375%, 1.75% and 3.625%, respectively, may have somewhat adverse effects on the Company's use of capital. As a result, the Company will continue to increase holding position of low-risk, high-yield fixed income assets such as government bond and real estate instrument for higher investment gains.
2. Exchange rate: The Company maintains close contact with banking partners and consults experts for opinions and the latest financial information. The Company constantly obtains banks' view and data on exchange rate movements, and thereby keeping itself informed of the latest developments at all times.
3. Inflation: Not applicable.

(II) Policies on high-risk and highly leveraged investments, loans to third parties, endorsements / guarantees, and trading of derivatives; describe the main causes of any profit or loss incurred and future responsive measures:

1. The Company did not engage in any high-risk or highly leveraged investment or transactions such as endorsement, guarantee, or trading of derivatives.
2. The Company has policies in place to govern loans to third parties, and the policies require third-party loans to be priced at 1.5% above the time deposit rates quoted by Chang Hwa Bank, First Commercial Bank, and Hua Nan Bank. The Company treats third-party loan as a form of stable income, but currently has no balance outstanding.

(III) Future research and development plans and projected expenses:

1. Future R&D plans:  
The Company is a non-life insurance service provider; its future R&D activities mostly involve modification of existing products and introduction of new products. New insurance products should primarily consist of liability insurance policies combined with riders.
  2. Projected R&D expenses: The Company's new products are developed by various insurance departments in their respective areas of expertise. Their proposals are reviewed and priced by the Actuarial Department before submitting to the competent authority for acknowledgment or approval. As a result, no further R&D expense needs to be invested in the future.
- (IV) Financial impacts and responsive measures due to change of local and foreign regulations in recent years:  
The Financial Supervisory Commission is planning to introduce the following measures to “inspire financial innovation and enforce financial governance” while ensuring the prosperity, stability and advancement of the financial market:
1. Ongoing support for new financial technologies.
  2. Ongoing support for green banking.
  3. Amendments to key regulations such as the Banking Act of The Republic of China, the Securities and Exchange Act, and the Insurance Act.
  4. Optimize corporate governance.
  5. Expand the scope of the capital market.
  6. Development of a robust trade market.
  7. Enhance anti-money laundering in the financial industry.
  8. Deregulate and enhance competitiveness of the financial industry.
  9. Ongoing enhancements to the protection of financial consumers' rights.
  10. Ongoing enhancements to financial supervision.
- The Company has amended its Notes on Anti-money Laundering and Counter Terrorism Financing to conform with rules of the competent authority. The Company has also escalated the level of its compliance efforts and enhanced protection for consumers in order to comply with regulatory requirements.
- (V) Financial impacts and responsive measures due to technological or industrial changes in the last year: None.
- (VI) Crisis management, impacts, and responsive measures due to change of corporate image in the last year: None.
- (VII) Expected benefits, risks and responsive measures in relation to mergers and acquisitions undertaken in the last year: None.
- (VIII) Expected benefits, risks and responsive measures associated with plant expansions in the last year: None.
- (IX) Risks and responsive measures associated with concentrated sales or purchases in the last year: None.
- (X) Impacts, risks and responsive measures following a major transfer of shareholding by directors, supervisors, or shareholders with more than 10% ownership interest in the last year: None.
- (XI) Impacts, risks and responsive measures associated with a change of management: None.
- (XII) Major litigations, non-contentious cases, or administrative litigations involving the company or any director, supervisor, president, person-in-charge or major shareholder

with more than 10% ownership interest, whether concluded or pending judgment, that are likely to pose significant impact to shareholders' equity or security prices of the company. Disclose the nature of dispute, the amount involved, the date the litigation first started, the key parties involved, and progress as of the publication date of this annual report: None.

(XIII) Other material risks and responsive measures: None.

VII. Other important disclosures: None.

## **Eight. Special Remarks**

- I. Affiliated companies: None.
- II. Private placement of securities in the last year up till the publication date of this annual report: None.
- III. Holding or disposal of the company's shares by subsidiaries in the last year, up till the publication date of this annual report: None.
- IV. Other supplementary information: None.

**Nine. Any occurrence of event defined under Subparagraph 2, Paragraph 3, Article 36 of the Securities and Exchange Act in the previous year up till the publication date of this annual report that significantly impacted shareholders' equity or security prices: None.**

The First Insurance Co., Ltd.  
Chairman Cheng-Han Lee